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No. _____

IN THE

Supreme Court of the United States

OCTOBER TERM 1992

KALITTA FLYING SERVICE, INC.,
CONNIE KALITTA SERVICES, INC.,
Petitioners,

v.

G.S. RASMUSSEN & ASSOCIATES, INC.,
Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

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QUESTIONS PRESENTED

I. Whether the Court of Appeals' creation of an exclusive property right in an STC conflicts with this Court's decision in *Ruckelshaus v. Monsanto Co.*, 467 U.S. 985 (1984).

II. Whether the Supremacy Clause prohibits the enforcement of an exclusionary property right under state law based upon a federal regulatory scheme not intended to create such a right.

III. Whether a state-created intellectual property right in a federally issued certificate is preempted by federal patent and copyright law, where the subject matter of the right comprises utilitarian products, processes, methods and ideas in the public domain.

IV. Whether the Court of Appeals violated due process by directing summary judgment against petitioner when no motion for summary judgment was made below.

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REPORTS OF OPINIONS DELIVERED IN COURTS BELOW

The opinion for publication of the Court of Appeals, filed March 9, 1992, appears in the Appendix ("App.") hereto. The unpublished memorandum opinion and order granting motion for summary judgment of the United States District Court for the Central District of California, entered on July 17, 1990, also appears in the Appendix hereto.

SUPREME COURT JURISDICTION

The judgment of the Court of Appeals for the Ninth Circuit was entered on March 9, 1992. This petition for certiorari was filed within 90 days of that date. This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1). (App. at 35a.)

STATUTES AND OTHER RELEVANT PROVISIONS

28 U.S.C.A. § 1254(1) (West Supp. 1992)

49 App. U.S.C. § 1302(a)(1) (1988)

49 App. U.S.C. § 1302(a)(8) (1988)

49 App. U.S.C. § 1302(a)(9) (1988)

49 App. U.S.C. § 1423(a)(2) (1988)

14 C.F.R. §§ 21.115-21.119 (1992)

14 C.F.R. §§ 21.133-21.143 (1992)

[COMPLETE TEXT IN APPENDIX]

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Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

Petitioners Kalitta Flying Service, Inc. and Connie Kalitta Services, Inc.[1] respectfully pray that a writ of certiorari issue to review the judgment and opinion of the United States Court of Appeals for the Ninth Circuit entered in this proceeding on March 9, 1992. In its opinion, the Court of Appeals held that under California law, Respondent Rasmussen has a property right in a Supplemental Type Certificate (STC) issued by the Federal Aviation Administration (FAA), sufficient to exclude all others from using the STC despite the fact that neither

[1] There are no parent companies or subsidiaries of either corporate petitioner. The caption of Respondent-Appellant Rasmussen's filings before the Court of Appeals also included Conrad A. Kalitta as a Defendant-Appellee. This style was adopted by the Court of Appeals, hence Mr. Kalitta's name appeared in the caption of the Court of Appeals' decision. Mr. Kalitta, however, is not a party to this action, having neither been served nor having submitted to the District Court's jurisdiction. Consequently his name is not included in the caption of this petition. The foregoing information is provided in response to Supreme Court Rules Nos. 14.1(b) and 29.1.

Congress nor the FAA intended to grant such an exclusionary property interest. In particular, the Court of Appeals held that Rasmussen could prevent Kalitta from referring to, or submitting a copy of, an FAA-issued STC in an application to the FAA for an airworthiness certificate. The Court of Appeals also held that this heretofore unknown state-created exclusionary property right was not preempted by federal copyright, patent and aviation laws. Finally, the Court of Appeals ordered partial summary judgment against Kalitta despite the fact that no such request had been made below.

STATEMENT OF THE CASE

Petitioner Kalitta Flying Service, Inc. is a Michigan corporation. Petitioner Connie Kalitta Services, Inc. is a Michigan corporation and is a commercial freight air carrier within the meaning of Parts 121 and 135 of the Federal Aviation Regulations, 14 C.F.R. § 121 *et seq.* (1992), *and* 14 C.F.R. § 135 *et seq.* (1992). They are collectively referred to herein as "Kalitta." Respondent G.S. Rasmussen and Associates, Inc. (Rasmussen) is a company which provides aeronautical engineering design services. Kalitta and Rasmussen are not competitors; rather, Kalitta is a potential customer of Rasmussen's services.

Rasmussen developed a plan to modify DC-8 cargo aircraft to carry higher payloads than permitted by the FAA under the DC-8 "type certificate."[2] Rasmussen calculated and submitted to the FAA technical data demonstrating that it was safe for DC-8s to carry higher payloads under certain specified condi-

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[2] A type certificate is an FAA approval of the airworthiness of a particular aircraft design. Aircraft manufactured in conformance with the design approved by the type certificate are deemed to be airworthy. Thus, a type certificate obviates the need for an individual determination of airworthiness for each aircraft built according to an FAA approved design. *See* 49 App. U.S.C. § 1423(a)(2) (1988); 14 C.F.R. §§ 21.133-21.143 (1992). (App. at 36a, 39a-42a.) A supplemental type certificate represents an approval for the modification to an original design covered by a type certificate. *See* 14 C.F.R. §§ 21.115-21.119 (1992). (App. at 38a-39a.)

tions. (App. at 5a-6a, 25a.) Rasmussen did not seek or obtain protection of its design, method or data under the copyright or patent laws. (App. at 25a.) Similarly, Rasmussen did not treat its design or data as a trade secret (*id.*); it freely disclosed its plan to the FAA with no reasonable expectation of confidentiality.

On the basis of Rasmussen's submissions, the FAA issued a "supplemental type certificate" to Rasmussen approving Rasmussen's modification design. (App. at 6a, 25a.) The STC permits Rasmussen to obtain an airworthiness certificate for DC-8 aircraft modified in conformance with the FAA-approved design covered by the STC. 14 C.F.R. § 21.119(a) (1992). (App. at 39a.) The STC discloses on its face the essentials of Rasmussen's modification design and technical data. (App. at 17a, 43a.)

Rasmussen commercialized its modification design by marketing STC implementation kits to DC-8 owners. The kits were composed of (1) a copy of the STC; (2) three instruments to be installed as part of the modification of the DC-8; and (3) a flight manual supplement. (App. at 25a.)

Kalitta operates DC-8 cargo aircraft, including one DC-8 which had been modified by its prior owner with one of Rasmussen's implementation kits. In July 1987, Kalitta purchased an unmodified DC-8. Rasmussen, having learned of Kalitta's acquisition of the DC-8, attempted to sell Kalitta one of its implementation kits. Kalitta declined. (App. at 6a, 26a-27a.)

Instead, Kalitta, which already had a copy of the STC and flight manual supplement as well as two of the instruments necessary for modifying the DC-8, acquired the remaining required instrument from other commercial sources and modified the DC-8 itself. Kalitta obtained an airworthiness certificate for the modified DC-8 by demonstrating to the FAA that the modifications conformed to a design approved by the FAA. Kalitta did so by referencing the STC number on its

application and providing the FAA with a copy of the STC.[3] (App. at 6a-7a, 28a-29a.)

Rasmussen sued Kalitta for conversion and unjust enrichment, in the United States District Court for the Central District of California. (App. at 29a.) On July 17, 1990, the District Court granted Kalitta's motion for summary judgment, holding that Rasmussen failed to demonstrate the existence of a property right in the STC or implementation kit under federal or California law. (*Id.*) The Court also held that any common law intellectual property right which might arise from an STC would be preempted by federal law, citing this Court's recent decision in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989). (App. at 29a-30a.)

On March 9, 1992, the United States Court of Appeals for the Ninth Circuit reversed the District Court, holding that (1) Rasmussen has a property interest in its STC under California law sufficient to exclude all others from using its STC to obtain an FAA airworthiness certificate (App. at 14a); (2) this property interest is not preempted by federal copyright, patent and aviation statutes (App. at 15a-20a); and (3) Kalitta's use of a photo-copy of the STC to obtain an FAA airworthiness certificate constituted conversion and unjust enrichment under California law (App. at 20a-21a).

The case has been remanded to the District Court with instructions to find liability in favor of Rasmussen. (App. at 20a-23a.) Petitioners have moved for a stay of proceedings pending disposition of this petition and any subsequent proceedings in this Court.

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[3] The FAA does not recognize the STC issued to Rasmussen as granting to Rasmussen an exclusive right to modify DC-8 aircraft according to the FAA-approved design covered by the STC. Any DC-8 owner may obtain an airworthiness certificate to operate a modified DC-8 by demonstrating that its modifications conform to a design approved by the FAA. (App. at 17a, 26a.) In this case, the FAA found Kalitta's DC-8 airworthy because its modifications conformed to the design previously approved in connection with the STC initially issued to Rasmussen. (App. at 6a, 28a-29a.)

REASONS FOR GRANTING THE WRIT

I. THE COURT OF APPEALS' CREATION OF AN EXCLUSIVE PROPERTY RIGHT IN AN STC CONFLICTS WITH THIS COURT'S DECISION IN *RUCKELSHAUS v. MONSANTO CO.*

In *Ruckelshaus v. Monsanto Co.*, 467 U.S. 985 (1984), this Court held that a person who submits data to a federal agency has no "reasonable investment backed expectation" that the agency will refrain from disclosing or using that data to consider applications filed by others, absent a provision of law to the contrary. *Id.* at 1008-10. In particular, this Court held that pesticide manufacturers who submitted data to the EPA could neither prevent the EPA from disclosing or using the data to evaluate other applications nor demand compensation for use of the data. *Id.*

The Court of Appeals' decision in this case allows Rasmussen to do exactly what *Monsanto* forbade — prevent a federal agency from disclosing or using unprotected data in evaluating other applications. It does so by allowing Rasmussen to prohibit other applicants from referring to, or submitting a copy of, the STC issued to Rasmussen in connection with applications to the FAA.[4] The Court of Appeals' ruling usurps from the FAA the power to determine when use or disclosure of unprotected data is in the public interest and grants Rasmussen the power to control and limit the FAA's aircraft certification process.

The Court of Appeals struggled to recognize a heretofore unknown property interest in the STC — and thereby to prohibit other applicants from asking the FAA to consider its prior

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[4] The Court of Appeals focused on the use of the STC, rather than the underlying data, because the data is clearly unprotected under applicable patent, copyright and trade secret laws.

approval of an identical modification — in order to remedy what the Court of Appeals believed was Kalitta's "free-riding" on Rasmussen's efforts.[5] In attempting to prevent Kalitta from "free-riding," however, the Court of Appeals effectively limited the FAA's internal use of Rasmussen's data in evaluating other applications.[6]

Indeed, the rights created by the Court of Appeals are broader and more intrusive into the FAA certification process than those sought and denied by this Court in *Monsanto*. Rasmussen can now not only limit use of its prior efforts and data

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[5] The Court of Appeals defined "free-riding" to be a situation "where third parties enjoy the benefits of a good without having invested the time, money and effort of creating it." (App. at 7a-8a.) Petitioners assert that it was error for the Court of Appeals to rely on the "free rider" or "sweat of the brow" doctrine in creating this property right for Rasmussen in light of this Court's decisions in *Bonito Boats* and *Feist Publications, Inc. v. Rural Telephone Service, Inc.*, ___ U.S. ___, 111 S. Ct. 1282 (1991). In *Bonito Boats*, respondents, which had duplicated Bonito Boats' successful hull design, were clearly "free riding" on Bonito Boats' efforts. Nevertheless, this Court held that when a state cause of action conflicts with a strong federal policy favoring free competition in ideas not patented nor meriting patent protection, the state cause of action is preempted by the Supremacy Clause. 489 U.S. at 156-57. *See also Feist*, ___ U.S. at ___, 111 S. Ct. at 1291 ("sweat of the brow" doctrine did not justify eschewing "the most fundamental axiom of copyright law—that no one may copyright facts or ideas").

[6] The Court of Appeals clearly understood that the only value of the STC was attendant to the FAA's internal consideration of that data in weighing airworthiness applications:

> [Rasmussen's interest] has value *only* because it helps secure a government privilege to do something that would otherwise be forbidden. The time, money and effort Rasmussen devoted to obtaining his STC would largely be wasted but for the fact that they generated the data necessary to satisfy the requirements of the Federal Aviation Act and the Code of Federal Regulations.

(App. at 8a-9a.)

by other applicants, it can also effectively limit the FAA's ability to consider and rely upon the FAA's own prior determinations in issuing aircraft certifications. Consequently, the effect of the Court of Appeals' decision will be to make each certification application an inefficient *de novo* reconsideration of past FAA determinations.

The Court of Appeals based its holding on its determination that Rasmussen had a "reasonable investment-backed expectation" in exclusive rights to the data submitted to obtain the STC. (App. at 14a.) Under this Court's analysis in *Monsanto*, however, Rasmussen had no "reasonable investment-backed expectation" in such rights. Rasmussen did not seek to protect its data under the patent, copyright or trade secret laws. (App. at 25a.) Moreover, FAA regulations do not provide for or promise confidential treatment of data submitted to the agency. Indeed, Rasmussen, being the developer of several STC designs, undoubtedly knew that his data would be made public by the FAA and used by the FAA in evaluating other applications. (App. at 6a n.2, 25a.)

Accordingly, this Court should grant certiorari to determine whether the Court of Appeals erred in protecting data submitted to a federal agency where the submitter of such data has no reasonable investment backed expectation that the federal agency will refrain from utilizing that data in connection with the applications of others.

II. THE COURT OF APPEALS' CREATION OF AN UNPRECEDENTED EXCLUSIONARY PROPERTY RIGHT UNDER STATE LAW BASED UPON A FEDERAL REGULATORY SCHEME NOT INTENDED TO CREATE SUCH A RIGHT RAISES AN IMPORTANT QUESTION AFFECTING THE RELATIONSHIP BETWEEN FEDERAL AND STATE LAW.

The District Court granted summary judgment in favor of Kalitta based upon its conclusion that Rasmussen had no intellectual property right in the STC or the STC implementation kit. (App. at 29a.) In overturning the District Court, the Court of Appeals divined a property right arising from the FAA's grant of an STC sufficient to allow the STC holder to exclude all others from using the STC to obtain an airworthiness certificate. It did not do so easily, however.

The Court of Appeals recognized that under well-established principles of intellectual property law, the materials and instruments used by Kalitta to obtain an airworthiness certificate were publicly available and lawfully acquired.[7] Moreover, the Court of Appeals readily acknowledged that there was no basis for concludng that the FAA or the federal regulatory scheme relating to aircraft certification bestowed upon Rasmussen such an exclusionary property right. (App. at 9a.) To the contrary, in granting Kalitta an airworthiness certificate based upon the STC, the FAA had clearly demonstrated that it did not consider the grant of an STC to Rasmussen to be an exclusionary property interest. *See Doyn Aircraft, Inc. v. Wylie*, 443 F.2d 579, 580 n.1

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[7] The STC is a public document which Kalitta had every right to copy or reference in his FAA application. (App. at 7a n.4, 9a, 17a, 25a.) The flight manual supplement was uncopyrighted and in the public domain. (App. at 16a, 25a.) The instruments used to modify the aircraft were neither patented nor protected as trade secrets. (App. at 25a.)

(10th Cir. 1971) ("[STCs] do not ... grant exclusive rights since any number of people can acquire an STC for the same type of modification.") (*cited in* App. at 17a).

Recognizing that neither Congress nor the FAA had intended to create an exclusionary property right in STCs (App. at 9a), the Court of Appeals turned to the admittedly broad state law of California relating to the definition of property.[8] After consideration of cases dealing with non-exclusive property rights, the Court of Appeals determined that California law would recognize an exclusionary property right arising from the FAA's grant of an STC despite the fact that neither Congress nor the FAA intended to grant such a right.[9] (App. at 9a-14a.)

In creating an exclusionary state property right based upon the federal grant of an STC, the Court of Appeals has raised important and troubling questions relating to the relationship between federal regulations and state property law. In recognizing state property rights arising from federal regulations where no such rights were intended by the regulatory scheme, the Court of Appeals has invited states to divine new and far-reaching rights and privileges from federal regulations. Moreover, the Court of Appeals' decision has opened a Pandora's box from

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[8] The Court of Appeals erroneously stated in its opinion that the parties agreed upon the application of California law. (App. at 11a.) The fact that Kalitta disputed the basis for those causes of action which Rasmussen had filed under California law in no way constituted an agreement that California law governed the parties' dispute. In point of fact, there is little reason to believe that the law of California should apply to the facts of this case. Kalitta is located in Michigan, and all actions taken in obtaining an airworthiness certificate occurred in Michigan or in Washington, D.C.

[9] The Court of Appeals looked to cases, for example, dealing with property interests in state-granted liquor licenses. (App. at 11a-12a.) While the holder of a liquor license may have a property interest in his license, he does not ordinarily have an intellectual property right to prevent all others from using his ideas or data in order to obtain their own liquor licenses.

which will spring innumerable, conflicting state-created property rights ostensibly arising from federal regulations.

The application of these state-created rights will inevitably undermine and disrupt the very regulatory schemes from which it is claimed that the property rights spring. Indeed, the direct effect of the Court of Appeals' holding will be to disrupt and interfere with the FAA's regulation of interstate aviation. The immediacy and extent of this threat is apparent from a review of the facts of this case.

Kalitta is located in Michigan, and all actions taken in obtaining certification of Kalitta's DC-8 were taken in Michigan or Washington, D.C. The Court of Appeals readily acknowledged that Kalitta's actions did not violate federal law.[10] Moreover, there is no reason to believe that Kalitta's actions violated any Michigan law. Nonetheless, the Court of Appeals' decision allows California to project its law upon Kalitta on the sole basis that Kalitta is engaged in interstate aviation with operations in California.

As a result, all future applicants to the FAA, no matter where located, will be bound by the law of California (and presumably any of the other 49 states that wish to indirectly regulate aviation or the aircraft certification process) if the scope of their aviation activities is national. The only way such an applicant could avoid liability under California law for doing that which it is authorized to do in its home state, would be to limit its aviation activities to avoid service to California. Allowing California to prohibit or discourage out-of-state feder-

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[10] As the Court of Appeals noted:

> That this enumeration of rights and privileges [in the FAA regulations] is insufficient, of itself, to establish property rights is clear from the facts of this case: Kalitta had no trouble obtaining the airworthiness certificate by filling in the number of Rasmussen's STC and providing a photocopy thereof.

(App. at 9a.)

ally certificated air carriers from entering California strikes at the very heart of federal regulation of aviation.[11] *Cf. North Dakota v. United States*, 460 U.S. 300, 317-21 (1983) (state property laws which interfere with efficacy of federal regulatory program must yield to federal concerns); *Raymond Motor Transp., Inc. v. Rice*, 434 U.S. 429, 447-48 (1978) (state regulations restricting operation of trucks over 55 feet long and of double-trailer trucks travelling upon interstate highway burdened interstate commerce); *Bibb v. Navajo Freight Lines, Inc.*, 359 U.S. 520, 529-30 (1959) (state statute requiring use of contour rear fender mudguards on trucks and trailers operated on highways of state burdened interstate commerce).

More importantly, the effect of allowing California and other states to restrict or burden access to FAA certification by imposing the risk of liability on applicants will be to interfere with the FAA's ability to regulate aircraft safety efficiently. The very purpose of issuing STCs is to streamline the certification process and to advance the state of the art in safety design. If state-created property rights in STCs effectively prevent the FAA from relying on its prior considerations of aircraft designs, incremental design modifications quite literally will require the reinvention of the wheel.[12]

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[11] The FAA's mandate includes the goals of ensuring the safety of aviation and fostering interstate aviation. 49 App. U.S.C. § 1302(a)(1), (8), (9) (1988). (App. at 35a-36a.)

[12] Indeed, Rasmussen's modification design—itself an incremental improvement on the original DC-8 type certificate—depends upon and incorporates substantial prior work and testing performed by the original aircraft manufacturer which Rasmussen was not required to duplicate. Since there was no evidence adduced to suggest Rasmussen had permission to use the original DC-8 type certificate in *its* application to the FAA, the Court of Appeals has extended protection to an STC which was itself the fruits of "piracy."

The practical result of the Court of Appeals' decision will be the creation of enormous inefficiencies and increased costs in the aircraft certification process. Such unreasonable burdens upon the national federal regulatory scheme affecting interstate commerce must give way under the Supremacy Clause.

This Court should therefore grant certiorari to determine whether the Court of Appeals erred in creating an exclusionary property right under state law based upon a federal regulatory scheme not intended to create such a right.

III. THE COURT OF APPEALS' DECISION CONFLICTS WITH THIS COURT'S DECISIONS IN *BONITO BOATS, INC. v. THUNDER CRAFT BOATS, INC.* AND *FEIST PUBLICATIONS, INC. v. RURAL TELEPHONE SERVICE CO.*

In recognizing and enforcing a state-created exclusive right in STCs, the Court of Appeals created new law in direct conflict with this Court's decisions in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989), and *Feist Publications, Inc. v. Rural Telephone Service Co.*, ___ U.S. ___, 111 S. Ct. 1282 (1991).

In *Bonito Boats*, this Court reaffirmed the well established rule that utilitarian ideas, products, processes and methods disclosed to the public without the protection of a valid patent may not be removed from the public domain by state law. 489 U.S. at 156-57. *Bonito Boats* involved a Florida statute which prohibited duplication of unpatented hull designs through the direct molding process. Although the Florida statute did not prohibit all means of duplicating hull designs, it granted to the original designer the "patent-like" right to exclude all others from copying its hull design through direct molding. 489 U.S. at 144-45. Noting that the efficient operation of the federal patent system depends upon the free trade in publicly known unpatented ideas,

this Court held that the Florida statute was preempted by the Supremacy Clause. *Id.* at 167-68.

This Court reached a similar result regarding the application of the copyright laws in *Feist*. In *Feist*, this Court held that facts contained in a copyrighted work are in the public domain and thus freely useable by all. ___ U.S. at ___, 111 S. Ct. at 1288, 1289. In reaching this conclusion, this Court specifically rejected the "sweat of the brow" or "free-rider" doctrine upon which the Court of Appeals relied in this case. ___ U.S. at ___, 111 S. Ct. at 1295.

The Court of Appeals held that Rasmussen's state-created property right in an STC was not "patent-like" and thus was not preempted by *Bonito Boats*. (App. at 17a.) The Court of Appeals concluded that this novel property right was not "patent-like" because Rasmussen purportedly claimed no exclusive right to modify DC-8s as described in its STC. Indeed, the Court of Appeals noted that Kalitta or anyone else remained free to perform the necessary studies to obtain an identical STC from the FAA. *Id.*

The Court of Appeals, however, misinterpreted the concept of "patent-like" rights referred to by this Court in *Bonito Boats*. The nature of the patent grant is a right of exclusion of others from making, using or selling the claimed product, process or method. *See United Shoe Mach. Corp. v. United States*, 258 U.S. 451, 463 (1922). The plain effect of the Court of Appeals' holding is that Kalitta cannot freely use the public non-patented knowledge which it lawfully acquired.

The Court of Appeals' judgment prevents Kalitta from availing itself of the most practicable means of using the information it found in the public domain — submitting a copy of the STC to the FAA. Preemption is not avoided, however, merely because Kalitta could have duplicated Rasmussen's effort and obtained an STC for the same type of modification. That argument was specifically rejected by this Court in *Bonito*

Boats, in which the Court found that the Florida statute at issue conflicted with federal patent law even though it banned only one means of reproducing a public domain design:

> It is difficult to conceive of a more effective method of creating substantial property rights in an intellectual creation than to eliminate the most efficient method for its exploitation. *Sears* and *Compco* protect more than the right of the public to contemplate the abstract beauty of an otherwise unprotected intellectual creation — they assure its efficient reduction to practice and sale in the marketplace.

489 U.S. at 164.

The effect of the Court of Appeals' holding is to permit enforcement of the patent-like right of exclusive use of nonpatented utilitarian design information. This novel property right is even broader, in duration and in immunity from challenge, than would be permitted by federal patent law. If Rasmussen's design and data constituted patentable subject matter, the duration of any patent grant awarded could not exceed 17 years. *See Brulotte v. Thys Co.*, 379 U.S. 29, 31 (1964). As a result of the Court of Appeals' decision, however, Rasmussen now has exclusive rights in an STC forever.[13]

The Court of Appeals' judgment creates an equally clear conflict with federal copyright law. The Court of Appeals conceded that if Rasmussen claimed an exclusive right to copy the STC or the flight manual supplement, "his claim would surely be preempted by the Copyright Act." (App. at 15a.) The Court of Appeals, however, found no preemption because the

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[13] Similarly, while a patent is subject to challenge on a number of grounds, Rasmussen's property interest is apparently immune from attack since it is not subject to such patentability requirements as nonobviousness and novelty.

interest Rasmussen claimed was not the right to copy, but rather "the right to *use* the STC as a basis for obtaining an airworthiness certificate for an airplane that is modified in a particular way": (App. at 15a.)

> Enforcement of Rasmussen's property right in his STC leaves Kalitta free to make as many copies of the certificate as it wishes; to the extent the manual supplement is not protected by the copyright laws, the same is true of it. That Kalitta is prevented from then using these copies to obtain an airworthiness certificate from the FAA does not interfere in any way with the operation of the copyright laws.

(App. at 16a.)

The Court of Appeals' distinction between the right to "copy" and to "use" uncopyrighted matter renders the federal copyright scheme a nullity. The right to copy materials in the public domain necessarily contemplates the right to make practical or commercial use of the materials. By prohibiting the only practical use of the STC and flight manual supplement, the Court of Appeals has permitted Rasmussen to interfere with the right to copy materials in the public domain. In doing so, the Court of Appeals has created an intellectual property interest of greater breadth and duration than Rasmussen would have acquired had he obtained a copyright.

The federal right to copy and use materials in the public domain is secured by the Copyright Act. The state-created right to prohibit use of documents, facts and ideas in the public domain conflicts with federal copyright law and must be preempted. *Baker v. Selden*, 101 U.S. 99, 103 (1880).

The Court of Appeals strained to find a novel remedy under California law for what it apprehended as a "free-rider" problem. As this Court stated in *Bonito Boats*, however, "[t]he States are simply not free in this regard to offer equivalent protections to

ideas which Congress has determined should belong to all." 489 U.S. at 164-65. The application of a California law restricting the use of lawfully acquired, publicly disclosed non-patented and non-copyrighted information stands as an obstacle to the accomplishment and execution of the full purposes of Congress, *Hines v. Davidowitz*, 312 U.S. 52, 67 (1941), and consequently must yield to federal patent and copyright law policy.

This Court should therefore grant certiorari to determine whether the Court of Appeals' judgment is in conflict with this Court's decisions in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.* and *Feist Publications, Inc. v. Rural Telephone Service Co.*

IV. THE COURT OF APPEALS DEPRIVED PETITIONERS OF DUE PROCESS BY REMANDING WITH INSTRUCTIONS TO THE DISTRICT COURT TO CONSTRUE THE TERMS OF AN IMPLIED CONTRACT BETWEEN RASMUSSEN AND KALITTA.

The Court of Appeals, in reversing the District Court's grant of summary judgment in Kalitta's favor, instructed the District Court to fix the terms of an implied contract between Rasmussen and Kalitta, based on further evidence.[14] (App. at 21a.) Thus, despite the fact that Rasmussen had filed no cross motion for summary judgment, the Court of Appeals not only reversed the District Court's grant of summary judgment on Kalitta's motion, but also, effectively entered summary judgment in Rasmussen's favor. In doing so, the Court of Appeals denied Kalitta its right to a trial on disputed factual issues which have not been resolved by the trier of fact. Indeed, given the narrow legal focus of Kalitta's motion for summary judgment, little evidence relating to factual issues underlying Rasmussen's claims was submitted to the District Court.

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[14] The Court of Appeals also held that Kalitta was guilty of tortious conversion under California law. (App. at 20a-21a.)

This Court held in *Fountain v. Filson*, 336 U.S. 681, 683 (1949), that a court of appeals, when reviewing a district court's grant of summary judgment in favor of a defendant-appellee, may not order summary judgment against that party on an issue not raised in any summary judgment motion below.

In this case, Kalitta's motion for summary judgment, and the District Court's opinion, dealt with two narrow issues: (1) the legal sufficiency of Rasmussen's alleged property interest; and (2) the legal sufficiency of Rasmussen's claims seeking to enforce that interest. Those issues were briefed and decided without addressing liability, and Rasmussen made no cross motion for summary judgment on any issue. Consequently Kalitta had no opportunity to contest numerous disputed facts material to the issue of liability.[15]

Kalitta respectfully requests that this Court grant certiorari to remedy this deprivation of its right to trial.

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[15] For example, although the Court of Appeals' decision is expressly based on the application of California law, neither the District Court nor the Court of Appeals considered evidence or legal authority relating to the choice of law issue. Moreover, Kalitta denied many of Rasmussen's allegations, and raised numerous legal and equitable defenses (including waiver and expiration of the applicable statute of limitations), material to the issue of liability. Kalitta has never had the opportunity to present evidence on these issues.

CONCLUSION

For the foregoing reasons, this petition for a writ of certiorari should be granted.

Respectfully submitted,

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APPENDIX A

No. 90-56010
D.C. No. CV-89-1339-RG

FOR PUBLICATION

United States Court Of Appeals

FOR THE NINTH CIRCUIT

G.S. RASMUSSEN & ASSOCIATES, INC.,
Plaintiff-Appellant,

v.

KALITTA FLYING SERVICE, INC.;
AND CONNIE KALITTA SERVICES, INC.;
CONRAD A. KALITTA
Defendants-Appellees.

OPINION

Appeal from the United States District Court
for the Central District of California

Richard A. Gadbois, Jr., District Judge, Presiding

Argued and Submitted
August 15, 1991 — Pasadena, California
Filed March 9, 1992

Before: J. Clifford Wallace, Chief Judge, Alfred T. Goodwin and Alex Kozinski, Circuit Judges.

Opinion by Judge Kozinski

SUMMARY

INTELLECTUAL PROPERTY/REMEDIES

The court of appeals affirmed in part and reversed in part a district court judgment, remanding for further proceedings. The court held that the use of an FAA Supplemental Type Certificate (STC) to obtain a government privilege is a property right under California law, that protection of that right is not preempted by federal law, and that misuse of the STC may warrant claims for conversion and unjust enrichment.

Appellant George Rasmussen, an aeronautical engineer, developed an aircraft modification that allows DC-8 cargo airplanes to carry considerably more weight than was permitted under their original FAA certification. Based on hundreds of hours of engineering work, Rasmussen prepared and submitted volumes of technical data to the FAA for the purpose of establishing that it was safe for heavily loaded DC-8s to fly within an indicated speed range. The FAA granted him an STC. Ordinarily, a person seeking to obtain airworthiness certification to operate a DC-8 with such heavy loads would be required to modify the plane by installing three particular instruments, to provide a special supplement to the flight manual instructing the pilot how to fly the heavily loaded plane, and to show Rasmussen's STC to an FAA inspector to verify that the modifications conform to an FAA-approved design. Appellee Kalitta Flying Service, Inc., already the owner of a Rasmussen-equipped DC-8, bought another DC-8 and converted it to cargo use. Rasmussen offered to license his STC to Kalitta, but Kalitta declined. Instead, Kalitta copied the supplemental flight manual it already owned, obtained the three necessary instruments from another source, and simply typed the number of Rasmussen's STC on the appropriate place on the FAA's application for an airworthiness certificate. The FAA certified the modified plane as airworthy. Rasmussen sued for conversion of his STC and for unjust enrichment. The district court granted summary

judgment for Kalitta, holding that Rasmussen had no protectable property interest in the STC and that, in any event, his action was preempted by federal copyright and patent laws.

[1] The law generally favors the establishment of property rights. **[2]** Rasmussen's interest has value only because it helps secure a government privilege to do something that would otherwise be forbidden. **[3]** There is no implied private right of action under the Federal Aviation Act. **[4]** California law defines property very broadly. **[5]** That the interest here is limited to obtaining a governmental privilege does nothing to diminish its status as a property interest under that law. **[6]** Three criteria must be met before a property right will be recognized: there must be an interest capable of precise definition, it must be capable of exclusive possession or control, and the putative owner must have established a legitimate claim to exclusivity. **[7]** Here, the nature and extent of the rights afforded by an STC are capable of precise definition, **[8]** there are no conceptual or practical difficulties in restricting the right to the holder of the STC or an authorized transferee, and **[9]** Rasmussen's labors and investments reasonably give rise to a legitimate claim of exclusive control over the STC. **[10]** Thus, Rasmussen had a property interest in his STC under California law unless it conflicted with federal law.

[11] Federal copyright law governs only copying. That Kalitta would be prevented from using copies of the flight manual or the certificate to obtain FAA certification does not interfere with operation of the copyright laws. **[12]** Granting Rasmussen a property right in his STC will serve many of the same purposes of the patent law, because it will promote innovation in the field of aeronautics. But patent policy is not disturbed by the existence of another form of incentive to invention. Thus, there is no patent law preemption. **[13]** Finally, recognizing a property right in STCs would not frustrate the Federal Aviation Act or the regulations promulgated thereunder.

[14] Under California law, Kalitta tortiously converted Rasmussen's STC because Rasmussen had an ownership interest in the STC, because Kalitta obtained a valuable benefit as a consequence of unauthorized use of the STC, and because Rasmussen suffered damages. **[15]** Further, California courts would imply a contract between Kalitta and Rasmussen. The facts indicate that Kalitta materially benefitted from the STC but paid nothing. On remand, the district court will fix the terms of the contract, based on further evidence.

COUNSEL

Michael W. Stamp, Stamp and Franklin, Pacific Grove, California; W. Montgomery Jones, Jones and Jones, Monterey, California, for the plaintiff-appellant.

Robert H. Morse, Galland, Kharasch, Morse & Garfinkle, P.C., Washington, D.C.; C. Darryl Cordero, Weissburg & Aronson, Los Angeles, California, for the defendants-appellees.

OPINION

KOZINSKI, Circuit Judge:

We shuttle back and forth between federal and state law in determining what legal protections — if any — are available to the holder of certain aircraft design permits issued by the Federal Aviation Administration.

Facts

A. The FAA is charged by Congress with promoting air safety, see 49 USC § 1421(a), and pursues this mission vigorously and effectively in cooperation with the private aviation industry. One of the FAA's most important functions is to prescribe standards and to measure compliance with a multistep certification process for airplane design and production. See generally *United States v. Varig Airlines*, 467 US 797, 804-07 (1984).

Because the certification procedure is complex and expensive, the FAA certifies airplane types rather than individual planes. Aircraft manufacturers are required to test and analyze new airplane designs themselves; the FAA then determines the airworthiness of the design based on the manufacturer-generated engineering data and test results.[1] Once a manufacturer has demonstrated the safety of its design, the FAA issues it a Type Certificate. See 49 USC § 1423(a)(2); 14 CFR § 21.21(b). The manufacturer can then obtain a production certificate by proving to the FAA that each duplicate airplane will comply with the Type Certificate. See 49 USC § 1423(b); 14 CFR §§ 21.133-21.143. Finally, the manufacturer can obtain airworthiness certification for subsequent aircraft, without undergoing independent testing, by demonstrating that they conform to the Type Certificate. See 49 USC § 1423(c); 14 CFR § 21.183.

This case involves a closely related FAA certification scheme: Supplemental Type Certificates (STCs) — which, as the name implies, certify changes to planes already type-certificated. Anyone who wishes to make a major alteration to an airplane must obtain an STC. 14 CFR § 21.113. The STC serves the same function for alterations as the Type Certificate does for initial manufacture: It allows the FAA inspector to shortcut the airworthiness certification process by incorporating an approved design. STCs are obtained through the same arduous process as Type Certificates: The applicant must present engineering and test data sufficient to prove to the FAA the airworthiness of the proposed modification. See 14 CFR §§ 21.115-21.117.

B. George Rasmussen is an aeronautical engineer. He calculated safe airspeed parameters for DC-8 cargo planes car-

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[1] The certification may be by FAA employees or by designated engineering representatives — private sector experts in the field. See 14 CFR § 183.29.

rying significantly more weight than they were designed for, and developed an aircraft modification that allows DC-8s to carry tens of thousands more pounds than permitted under their original Type Certificate. Based on hundreds of hours of engineering work, Rasmussen submitted volumes of technical data to the FAA. Having thus proved that it was safe for heavily loaded DC-8s to fly within his calculated speed range, he was granted an STC.[2]

For a DC-8 owner to obtain airworthiness certification to operate a plane with the increased cargo capacity, he must meet three requirements: First, he must modify the aircraft by installing three instruments — two airspeed indicators and a maximum speed warning gauge; second, the plane must carry a supplement to the flight manual instructing the pilot how to fly the heavily loaded plane safely; third, Rasmussen's STC must be shown to the FAA inspector so he can verify that the modifications conform to a design that has been approved by the FAA as airworthy. Without Rasmussen's STC, the plane owner would have to obtain his own STC by independently proving to the FAA that the modification was safe.

Kalitta owns and operates cargo aircraft. In 1985, it bought a used DC-8 passenger airplane. It proceeded to convert the plane to cargo use, a use that would be uneconomical without the modification described in Rasmussen's STC. Rasmussen offered to license the STC to Kalitta for $95,000, but Kalitta declined. Instead, in the district court's words, "Kalitta decided to 'pirate' the Rasmussen STC." Kalitta copied the supplemental flight manual from a Rasmussen STC-equipped DC-8 it already owned,[3] and obtained the three necessary instruments

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[2] Rasmussen holds more than 20 STCs. For simplicity we will discuss only the particular DC-8 cargo capacity STC involved in this case. For the same reason, we will refer to the plaintiff as Rasmussen even though his STCs have at various times been held by different corporations under his control.

[3] This plane and another owned by Kalitta are also involved in this action. See Discussion, section C.2 below.

from sources other than Rasmussen. It installed them on the airplane and applied to the FAA for an airworthiness certificate; it typed the number of Rasmussen's STC on the appropriate line of the application, and included a photocopy of the certificate itself.[4] Kalitta's modification conformed with Rasmussen's validly issued STC. The FAA certified Kalitta's modified DC-8 as airworthy.

Taking the position that Kalitta was free-riding on his effort, Rasmussen sued for conversion of his STC and for unjust enrichment. The district court granted summary judgment for Kalitta, holding that Rasmussen had no protectable property interest in the STC and, in any event, that his action was preempted by the federal copyright and patent laws.[5]

Discussion

A. *Is There a Property Right?*

[1] How property rights in new goods and services are established and defined is a question of considerable significance in a society, such as ours, where private ownership is the principal incentive for the creation and maintenance of commodities, and for their efficient allocation. The failure or inability to recognize private property rights in certain types of goods often leads to a variety of adverse effects. One phenomenon, known as the tragedy of the commons, is the overuse of public goods because individual users do not suffer the full cost of their consumption. A related phenomenon is the free-rider problem, where third parties enjoy the benefits of a good without having invested the time, money and effort of

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[4] It appears that the FAA does not require an original STC as part of the application process; indeed, because there is only a single original of any particular STC, airworthiness applications necessarily include only a copy of the certificate.

[5] The district court had jurisdiction pursuant to 28 USC § 1332(a)(1). We have jurisdiction over this timely appeal pursuant to 28 USC § 1294(1).

creating it. While the tragedy of the commons results in the overconsumption of existing goods, the free-rider problem discourages the creation of new goods. In order to avoid such inefficiencies, the law generally favors the establishment of property rights. See, for example, *International News Service v. Associated Press*, 248 US 215 (1918).

Giving innovators the exclusive right to reap the benefits of their efforts compensates them for the costs of innovation, the risk of failure and the potential liability that can arise if the product proves defective.[6] If successful entrepreneurs are denied such exclusive rights, they will be less likely to invest the necessary time, money and energy into innovation.[7] It is with these considerations in mind that we turn to the unusual facts before us.

[2] Rasmussen's interest is of a most interesting and peculiar sort, one that may become more prevalent as we continue to witness the expansion of the regulatory state: It has value *only* because it helps secure a government privilege to do something that would otherwise be forbidden. The time, money and effort Rasmussen devoted to obtaining his STC would largely be wasted but for the fact that they generated the data

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[6] Rasmussen, for example, could be held liable for huge damage awards if a plane modified pursuant to his STC crashes. Cf. *Elsworth v. Beech Aircraft Corp.*, 37 Cal 3d 540 (1984) (affirming damages award against airplane manufacturer despite FAA approval under Type Certificate), cert denied, 471 US 1110 (1985). This type of risk can be a substantial barrier to the production of new and useful products. See Peter W. Huber, *Liability: The Legal Revolution and its Consequences* 153-71 (1988).

[7] Of course, giving incentives to creative talent is not the only important consideration in determining the existence and extent of a property interest. Thus, granting patent rights for infinite duration might well result in an immediate increase in inventions, but would doubtless also impoverish the body of shared knowledge from which future inventors must draw in creating useful products in the future. The patent laws therefore grant protection for only a limited time. See 35 USC § 154 (seventeen years).

necessary to satisfy the requirements of the Federal Aviation Act and the Code of Federal Regulations.

Under the applicable FAA regulations, an STC is granted upon the presentation of certain documentation, which normally can be obtained only through expensive and time-consuming design, experimentation and testing. 14 CFR §§ 21.115-21.117. Moreover, an STC is issued to a particular individual and entitles the holder to specific privileges. Id § 21.119. The STC is transferable and it may be licensed, in accordance with FAA procedures. Id § 21.47.[8]

That this enumeration of rights and privileges is insufficient, of itself, to establish property rights is clear from the facts of this case: Kalitta had no trouble obtaining the airworthiness certificate by filling in the number of Rasmussen's STC and providing a photocopy thereof.[9] Whatever rights the regulations may provide, therefore, are not self-executing, and it is unclear whether Rasmussen could have challenged the FAA's action in issuing the airworthiness certificate to Kalitta.[10]

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[8] The district court concluded that STCs are not transferable because section 21.47 refers only to Type Certificates. Rasmussen's STC states on its face, however, that it can be transferred "in accordance with" the Type Certificate regulation. CR 48 exhibit Q. Furthermore, the second page of the STC is titled "transfer endorsement" and states that when completed and returned "the FAA will reissue the certificate in the name of the transferee and forward it to him." Id. The parties do not dispute that STCs are transferable.

[9] Why this is so is a mystery. A straightforward reading of the regulations would suggest that only a holder of an STC is entitled to an airworthiness certificate. See 14 CFR § 21.119(a). Kalitta did not hold the certificate either originally or as a transferee or licensee. Because the FAA did not participate in this case as a party or amicus, we have no authoritative way of determining whether issuance of the airworthiness certificate to Kalitta was a mistake, or whether the privilege granted by section 21.119 is narrower than it appears.

[10] Rasmussen might have been entitled to bring an APA action challenging the issuance of the STC, had he acted in a timely fashion. See *Oregon*

There are many reasons why a federal agency would choose not to police property rights that might be created incidental to its regulatory scheme. Here, for example, the purpose of the federal aviation statutes and regulations is to assure air safety. *Varig Airlines*, 467 US at 804-05. The FAA may well have contemplated that holders of STCs would have the exclusive right to obtain airworthiness certificates, but the agency may deem it too burdensome to keep track of the hundreds, perhaps thousands, of STCs outstanding; it may lack the facilities and the expertise to adjudicate questions of joint ownership, transfer, license and the multitude of other issues that routinely arise when property rights are involved. The FAA may have decided it could best pursue its mission by granting airworthiness certificates to whoever can show compliance with a validly issued STC, leaving questions of property law to the courts. Cf. Wall St. J. B7 (Jan. 23, 1992) (discussing trademark dispute between two airlines, in federal court "because [in 1988] the Department of Transportation discontinued its decades-old practice of settling airline name disputes").

[3] Rasmussen argues that even if the regulatory agency is unwilling or unable to enforce his rights, federal law can nevertheless provide an enforcement mechanism by recognizing an implied right of action under the federal aviation regulations. Pursuant to the four-part test articulated in *Cort v Ash*, 422 US 66 (1975), we have previously held that there is no implied

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Environmental Council v. Kunzman, 714 F2d 901, 903 n 2 (9th Cir 1983). We need not decide this issue because Rasmussen's failure to bring such an action is no bar to his bringing the current action under state law. The APA action would, in effect, be seeking to cancel what Rasmussen claims is an infringement of his exclusive privilege granted by the FAA regulations. The current action seeks a different remedy: compensation for the benefit bestowed upon Kalitta by use of the right Rasmussen claims was granted exclusively to him. Rasmussen was entitled to choose which of these remedies to pursue. See *Koratron Co. v. Deering Milliken Inc.*, 418 F2d 1314, 1317-18 (9th Cir 1969), cert denied, 398 US 909 (1970).

private right of action under the Federal Aviation Act. See *Montgomery v American Airlines, Inc.*, 637 F2d 607, 609-10 (9th Cir 1980), cert denied, 450 US 920 (1981). We reach the same conclusion here, particularly where plaintiff's claim is grounded in the regulations rather than the statute itself: Two of the *Cort* factors turn on the furtherance or hindrance of congressional objectives — an amorphous consideration that becomes even more attenuated when applied to regulations.

[4] Because federal law plays a significant role in defining the right but provides no mechanism of private enforcement, we must turn to state law in determining whether Rasmussen's interest amounts to a property right. Cf. *Board of Regents v Roth*, 408 US 564, 577 (1972) ("Property interests ... are created and their dimensions are defined by existing rules or understandings that stem from an independent source such as state law...."). The parties agree that the appropriate state law is that of California, which defines property very broadly: "The ownership of a thing is the right of one or more persons to possess and use it to the exclusion of others.... [T]he thing of which there may be ownership is called property." Cal Civil Code § 654. This somewhat tautological definition leaves unanswered the key question: How does one determine whether someone is entitled to exclusive use or possession of the thing in question?

Another provision of California law, giving examples of intangible property interests, is more helpful. The list includes the following: "[T]he composition of an author, the good-will of a business, trade-marks and signs, and ... rights created or granted by statute." Id § 655. Also helpful are decisions of the California courts determining whether various interests amount to property. A state liquor license, for example, is property under California law. *Golden v State*, 133 Cal App 2d 640, 643-45 (1955). The *Golden* court found dispositive that the license was issued to a specific person and was transferable from

one person to another. It is thus relevant that the STC involved in this case states on its face that "This certificate [is] issued to G.S. Rasmussen" and that "This certificate may be transferred." See also *Yuba River Power Co. v Nevada Irrigation Dist.*, 207 Cal 521, 523 (1929) ("the term 'property' is sufficiently comprehensive to include ... everything which one person can own and transfer to another").

[5] That the interest in question is limited to obtaining a governmental privilege, and a federal one at that, does nothing to diminish its status as a property interest for purposes of state law. As the California Supreme Court has stated, "[a]lthough a ... license is merely a privilege so far as the relations between the licensee and the state are concerned, *it is property in any relationship between the licensee and third persons*, because the license has value and may be sold." *Roehm v County of Orange*, 32 Cal 2d 280, 282-83 (1948) (emphasis added).[11] The interest need not be one that was considered property at common law and, of course, need not be tangible. *City of Oakland v Oakland Raiders*, 32 Cal 3d 60 (1982) (property right in professional football franchise); see also *Terrace Water Co. v San Antonio Light and Power Co.*, 1 Cal App 511, 513 (1905) (electricity); *Johnston v Twentieth Century-Fox Film Corp.*, 82 Cal App 2d 796, 807-13 (1947) (book title).

[6] To the extent we can distill a principle on the basis of this somewhat amorphous body of law, three criteria must be met before the law will recognize a property right: First, there must be an interest capable of precise definition; second, it must

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[11] The FAA might decide to alter or revoke the exclusivity of STCs; we express no view on whether such a regulatory action by the licensing body could constitute a taking requiring just compensation. See *Ruckelshaus v Monsanto Co.*, 467 US 986, 1004-14 (1984). The distinction drawn in *Roehm* between rights vis-a-vis private parties and rights vis-a-vis the governmental entity that gave rise to the right may well be dispositive of this issue.

be capable of exclusive possession or control;[12] and third, the putative owner must have established a legitimate claim to exclusivity.[13] The interest Rasmussen asserts here easily meets these criteria.

[7] The nature and extent of the rights afforded by an STC are capable of precise definition: It enables an airplane owner to obtain an airworthiness certificate for a particular design modification without the delay, burden and expense of proving to the FAA that a plane so modified will be safe. Federal law also limits the interest in a significant way: The rights created by an STC are only applicable to airplanes within the safety jurisdiction of the FAA — "civil aircraft in air commerce." 49 USC § 1421(a). Thus, Kalitta is free to make Rasmussen's modification on airplanes it flies entirely outside the United States. Id § 1301(23) (defining "air commerce").

[8] Nor are there any conceptual or practical difficulties in restricting the right to the holder of the STC, or to someone who is a transferee or licensee. In fact, the federal regulations contemplate exactly that. Rasmussen's interest is thus precisely defined and capable of exclusive possession.

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[12] As the saying goes, some of the best things in life are free, and the reason may be that they cannot be reduced to possession: The air we breathe, scenic views, the night sky, the theory of relativity and the friendship of others cannot be reduced to possession and therefore cannot be the basis of property rights.

[13] Opinions defining property for takings purposes often use the phrase "reasonable investment-backed expectations" to describe such claims. See, for example, *Monsanto*, 467 US at 1005; *Long Beach Equities, Inc. v County of Ventura*, 231 Cal App 3d 1016, 1038 (1991). The phrase aptly describes the nature of the interest needed to establish property rights for purposes of California law. The degree of investment — monetary or otherwise — is relevant, especially when dealing with intangibles, in determining whether the purported owner has developed a stake in the thing sufficient to warrant invoking the protections of the law of property.

[9] The final requirement — that Rasmussen have established a legitimate claim to exclusivity — is also amply met here. Rasmussen expended considerable time and effort in research and design; he conducted the appropriate tests and compiled the necessary data; he prepared an operations manual and lined up an instrument manufacturer; he convinced the FAA that the modification is safe; and he obtained a certificate which results in preferential rights in the issuance of airworthiness certificates by the FAA. Without Rasmussen's efforts, the STC Kalitta relied on simply would not exist. Rasmussen has the type of reasonable investment-backed expectations that give rise to a legitimate claim of exclusive control over the STC.

[10] We therefore hold that Rasmussen has a property interest in his STC under California law,[14] unless such an interest conflicts with federal law. We turn to that question now.

B. *Preemption*

Federal preemption takes three basic forms, all of which must be considered in this case. First, Congress may explicitly preempt state law; second, a federal scheme may occupy a given field and thus preempt state law in that field; and third, when compliance with both state and federal law is impossible the conflicting state law is preempted. See *California v ARC America Corp.*, 490 US 93, 100-01 (1989). Whatever the form, the key is whether the operation of state law "'stands as an

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[14] The district court's unwillingness to recognize a property interest here because it could not fit it into an intellectual property pigeonhole elevates nomenclature over substance. While we occasionally find it useful to refer to certain types of property as real, personal, intellectual or intangible, these labels have little substantive significance in determining whether a property right exists. The key question is not whether we can find a category of property into which the right fits, but whether there is any reason, in public policy or otherwise, we should deny a party the full benefit of its efforts where exclusive rights are reasonably easy to define and protect. Defendant has pointed to no such reason and we can think of none.

obstacle to the accomplishment and execution of the full purposes and objectives of Congress.'" *Kewanee Oil Co. v Bicron Corp.*, 416 US 470, 479 (1974) (quoting *Hines v Davidowitz*, 312 US 52, 67 (1941)).

1. Copyright Law Preemption

Copyright preemption is both explicit and broad: 17 USC § 301(a) prohibits state-law protection for any right equivalent to those in the Copyright Act. The drawings and plans involved in implementing the STC, and the flight manual supplement, are subject to copyright. 17 USC § 102(a). Thus, copyright provides the sole remedy for their unsanctioned duplication. See *Avco Corp. v Precision Air Parts, Inc.*, 210 USPQ 894, 897 (MD Ala 1980), affirmed, 676 F2d 494 (11th Cir), cert denied, 459 US 1037 (1982). And the STC certificate is a government form as to which no protection from copying exists. 17 USC § 105; see *Building Officials & Code Adm. v Code Technology, Inc.*, 628 F2d 730, 735 (1st Cir 1980). Were Rasmussen claiming an exclusive right to copy the manual, the drawings and plans or the STC itself, his claim would surely be preempted by the Copyright Act.

Rasmussen claims a much different interest, however: The right to *use* the STC as a basis for obtaining an airworthiness certificate for an airplane that is modified in a particular way. Rasmussen thus complains not about the actual copying of the documents, but of their use as a shortcut in obtaining a valuable government privilege — the right to modify an airplane in a particular way without going to the trouble and expense of proving that the modification meets FAA standards.

[11] Federal copyright law governs only copying. See 17 USC § 106. We have held that "[s]ection 301(a) [of the Copyright Act] preempts a state-created right if that right may be abridged by an act which, in and of itself, would infringe one of the exclusive rights listed in § 106. But if violation of the state right is predicated upon an act incorporating elements

beyond mere reproduction or the like, there is no preemption." *Oddo v Ries*, 743 F2d 630, 635 (9th Cir 1984) (internal quotations, brackets and citations omitted). Enforcement of Rasmussen's property right in his STC leaves Kalitta free to make as many copies of the certificate as it wishes; to the extent the manual supplement is not protected by the copyright laws, the same is true of it. That Kalitta is prevented from then using these copies to obtain an airworthiness certificate from the FAA does not interfere in any way with the operation of the copyright laws.

2. Patent Law Preemption

A somewhat closer issue is presented with respect to patent law, which establishes a zone of preemption broader than that of copyright law: Even if Congress has left an area unprotected, the fact that patent law *could* reach it preempts state-law protection. See *Sears, Roebuck & Co. v Stiffel Co.*, 376 US 225, 230-32 (1964); *Compco Corp. v Day-Brite Lighting, Inc.*, 376 US 234, 237-38 (1964). Congress has balanced innovation incentives against promoting free competition, and state laws upsetting that balance are preempted. Thus, a machine or process that does not satisfy the requirements of federal patent law — non-obviousness and the like — cannot be protected under either federal or state law. For this reason, the instruments required to modify the plane in accordance with the STC, and the entire modification process, must be protected by patent law or not at all. See *Bonito Boats, Inc. v Thunder Craft Boats, Inc.*, 489 US 141, 156-57 (1989).

The supremacy clause does not require full congruence between federal and state intellectual property protections, however. See *Goldstein v California*, 412 US 546 (1973) (federal copyright law does not preempt state copyright law providing greater protection); *Kewanee Oil*, 416 US 470 (federal patent law does not preempt state trade secret law protecting unpatentable processes). The Supreme Court has summarized its

preemption approach as follows: "States may not offer *patent-like protection* to intellectual creations which would otherwise remain unprotected as a matter of federal law." *Bonito Boats*, 489 US at 156 (emphasis added). In that case, the Court struck down a state statute that prohibited copying boat hull designs: "[T]he Florida statute allows petitioner to [ ] assert a substantial property right *in the idea*, thereby constricting the spectrum of useful public knowledge." Id at 159 (emphasis added).

The right involved here, however, is not "patent-like" at all. Rasmussen claims no exclusive right to modify DC-8s as described in his STC. Kalitta or anyone else may perform the necessary studies and obtain an STC from the FAA — even if the modification so certified is identical to Rasmussen's. See *Doyn Aircraft, Inc. v Wylie*, 443 F2d 579, 580 n 1 (10th Cir 1971) ("[STCs] do not ... grant exclusive rights since any number of people can acquire an STC for the same type of modification.").

In *Aronson v Quick Point Pencil Co.*, 440 US 257 (1979), the Court held that a state contract law enforcing a royalty agreement for an unpatentable invention was not preempted. The Court reviewed the purposes of the patent system: to foster and reward invention, stimulate further innovation and ensure free use of ideas in the public domain. Because the contract involved did not conflict with any of these goals, its enforcement was not preempted by federal patent law. Protecting property rights in STCs is similarly consistent with these objectives: Rasmussen can collect the fruits of his research, which provides both specific and general incentives to innovate, while his modifications will stimulate further innovation; at the same time, no information in the public domain is denied free circulation. The STC itself discloses the results of Rasmussen's testing and experimentation in coming up with the optimal combination of weight and speed; Kalitta need perform only those tests and studies that establish the safety of Rasmussen's modification to obtain its own STC.

[12] Granting Rasmussen a property right in his STC will serve many of the same purposes of the patent laws, because it will promote innovation in the field of aeronautics. But, as the Supreme Court has said, "[c]ertainly the patent policy of encouraging invention is not disturbed by the existence of another form of incentive to invention." *Kewanee Oil*, 416 US at 484. There is no patent law preemption.

3. Federal Aviation Act Preemption

Finally, we must consider whether recognizing a property right in STCs would impermissibly conflict with the federal aviation regulatory scheme. At the outset, neither the Federal Aviation Act nor its accompanying regulations explicitly preclude recognition of a property right in STCs. The statute does contain a provision which preempts state law "relating to rates, routes, or services," 49 USC § 1305, but this provision is inapplicable to the question before us.

Nor do any of the substantive provisions create a conflict, as was the case in *In re Holiday Airlines, Inc.*, 620 F2d 731 (9th Cir), cert denied, 449 US 900 (1980). In *Holiday Airlines*, we held that the statutory federal recording system for aircraft liens preempts state recording requirements; the decision was based largely on "[t]he predominant purpose of the statute," which was "to provide one central place for the filing of such liens...." Id at 735. Allowing individual state recording requirements to control would have impermissibly conflicted with this goal of uniformity. See *In re Peregrine Entertainment, Ltd.*, 116 BR 194, 200-01 (CD Cal 1990).

Here, by contrast, the purpose of the statute and regulations governing STCs is "to promote the safety of flight of civil aircraft in air commerce by establishing minimum standards for aircraft design, materials, workmanship, construction, and performance." *Varig Airlines*, 467 US at 804 (citing 49 USC § 1421). Recognizing a property right in STCs would not conflict with this guiding purpose. In fact, to the extent innovators like

Rasmussen retain control over the certificated modifications, safety will likely be enhanced: The Supreme Court has noted that "the duty to ensure that an aircraft conforms to FAA safety regulations lies with the *manufacturer and operator*," id at 816 (emphasis added), but Rasmussen can hardly monitor compliance if he does not know who has run off a copy of his STC on an office copier and used it to obtain airworthiness certification for an unsafe modification. Recognizing Rasmussen's property interest enables him to maintain closer control over the alteration process, and to notify licensees of problems or improvements in the modification.

We note also that without the exclusive right to capture the benefits of the time, money and expertise invested in obtaining an STC, entrepreneurs like Rasmussen will be less likely to devote their resources and energies toward aeronautical innovation. Many modifications undoubtedly increase safety or otherwise benefit the field of aviation; because recognizing a property right in STCs encourages such developments, the purposes of the federal scheme are actually advanced.

Furthermore, "when Congress legislates in a field traditionally occupied by the states, such as common law tort and contract remedies in business relationships, there is a presumption against finding preemption of state law." *West v Northwest Airlines, Inc.*, 923 F2d 657, 659 (9th Cir 1990) (citing *ARC America Corp.*, 490 US at 100-01). We held in *West* that the Federal Aviation Act did not preempt a state-law claim when compliance with state law did not conflict with the federal regulations. Id at 661; see also *Nader v Allegheny Airlines, Inc.*, 426 US 290, 299-300 (1976).

[13] We reach the same conclusion here. The relevant regulations confer exclusive privileges on the holder of an STC, and provide for transfer and licensing. See 14 CFR §§ 21.119, 21.47. Where federal regulations contemplate the same type of right sought to be enforced under state law, we are all the more

reluctant to find preemption. See *West*, 923 F2d at 661 & n 1. Compliance with both the federal regulations and state property law would place no one "in an untenable position when the agency and a court disagreed...." *Nader*, 426 US at 299. Recognizing a property right in STCs would not frustrate the Federal Aviation Act or the regulations promulgated thereunder.

* * *

Because STCs are beyond the scope of copyright, because their protection does not upset the balance established by Congress in the patent scheme, and because recognizing a property right in STCs does not conflict with the aviation statutes or regulations, we hold that Rasmussen's state-law actions are not preempted by federal law.

C. *State-Law Claims*

1. The Pirated STC

[14] In California, conversion has three elements: ownership or right to possession of property, wrongful disposition of the property right and damages. *Tyrone Pacific Int'l, Inc. v MV Eurychili*, 658 F2d 664, 666 (9th Cir 1981). Our earlier discussion establishes the first element: Rasmussen has an ownership interest in the use of his STC, which is property under California law. The second requirement is also satisfied: Kalitta photocopied the certificate, presented it to the FAA, and thereby obtained a valuable benefit as a consequence of using Rasmussen's STC without authorization or permission. Rasmussen has also suffered damages by being denied a return on his investment as a condition for granting Kalitta the right to use his STC. Thus, under California law, Kalitta tortiously converted Rasmussen's STC when it used the STC to obtain airworthiness certification for the modified DC-8.[15] See *Lone Ranger*

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[15] Kalitta concedes that if it had "entered Rasmussen's premises" and taken the STC documents, then it would have converted them and, furthermore, there would be no preemption. Appellee's Brief at 34 & n 19. We fail

Television, Inc. v Program Radio Corp., 740 F2d 718, 726 (9th Cir 1984) (affirming judgment for conversion of intangible rights under California law); *A & M Record, Inc. v Heilman*, 75 Cal App 3d 554, 570 (1977) ("misappropriation and sale of the intangible property of another without authority from the owner is conversion"), cert denied, 436 US 952 (1978).

[15] Rasmussen also alleges that Kalitta has been unjustly enriched. Under California law, a contract will be implied when one party has something which "in equity and good conscience" it ought not. *Philpott v Superior Court*, 1 Cal 2d 512, 522 (1934) (quoting 3 Page on Contracts § 1473) (internal quotations omitted). Kalitta has materially benefitted from the pirated STC: Its DC-8 can now carry substantially more cargo, and the parties agree that use as a cargo plane would be economically infeasible without the modification. Conversely, Kalitta has been spared the delay and expense it would have had to incur in obtaining its own STC. This benefit is due solely to Rasmussen's STC, for which Kalitta has paid nothing. Confronted with such facts, the California courts would imply a contract between Rasmussen and Kalitta. On remand, the district court shall fix its terms based on further evidence.

2. The Other Planes

In addition to the converted DC-8 with the pirated STC, Kalitta owns two other planes that had been modified with Rasmussen STCs by their prior owners.

One, a DC-8-21 freighter, was previously owned by Jet Way, to which Rasmussen had licensed an STC. The Jet Way

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to see any legal distinction between Kalitta's hypothetical and the facts before us: Kalitta's use of the photocopied STC deprived Rasmussen of his property right as surely as if Kalitta had purloined the original STC from Rasmussen's desk drawer and presented it to the FAA. The property right is in the *use* of the STC to obtain a governmental privilege, not in the physical possession of the STC form.

contract is a "license agreement" to install a Rasmussen STC upon payment of $25,000 plus $200 per month, and under which Jet Way agreed to maintain $10,000,000 of accident insurance on Rasmussen's behalf. Kalitta purchased Jet Way's assets, including the DC-8-21; Rasmussen asked Kalitta for monthly payments in accordance with the license, but Kalitta claimed it bought the plane "unencumbered."

The other, a DC-8-51 freighter, was previously owned by Lockheed, to which Rasmussen had licensed an STC. Lockheed sold the plane to Maldives, which in turn sold it to Kalitta. Kalitta claims no knowledge of the license agreement between Rasmussen and Lockheed, which is styled a "purchase agreement" whereby Lockheed is granted an "irrevocable license" to use the STC for the operating life of the aircraft. This license, for which Lockheed paid $58,000, also requires the licensee to maintain $10,000,000 of accident insurance on Rasmussen's behalf.

Both contracts provide that all rights under them are transferable and assignable, and that all obligations are binding on successors; both identify specifically the airplanes to which they apply. Whatever rights Rasmussen has against Kalitta must be in the latter's capacity as an assignee or third-party beneficiary of the license agreements:[16] As to these two planes, Kalitta has not infringed Rasmussen's property right in his STC, because it did not use the STC to obtain airworthiness certificates from the FAA.

Any contracts between the original licensees and Kalitta, however, do not appear in the record. Furthermore, Rasmussen sued only for conversion and unjust enrichment — not breach of contract. We therefore leave resolution of the claims relating to these two planes, if any, to the district court on remand.

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[16] Rasmussen might also have an action against the original licensees.

Conclusion

The use of an STC to obtain a governmental privilege is a property right under California law, and the protection of that property interest is not preempted by federal law; Rasmussen has stated valid claims for conversion and unjust enrichment.

AFFIRMED in part, **REVERSED** in part and **REMANDED** for further proceedings consistent with this opinion.

APPENDIX B

CASE NO. CV 89-1339 RG

United States District Court

CENTRAL DISTRICT OF CALIFORNIA

G.S.RASMUSSEN & ASSOCIATES,INC.,
Plaintiff,

v.

KALITTA FLYING SERVICE, INC.,
and CONNIE KALITTA SERVICES, INC.,
Defendants.

MEMORANDUM OPINION AND ORDER GRANTING MOTION FOR SUMMARY JUDGMENT

The Defendants' Motion for Summary Judgment and Motion for Leave to Amend their Answer came on regularly for hearing on April 23, 1990. W. Montgomery Jones appeared on behalf of Plaintiff while the Defendants were represented by Darryl Cordero and Robert H. Morse.

Upon careful consideration of the pleadings, declarations and oral arguments of counsel, this Court finds that there are no genuine issues of material fact and that the Defendants are entitled to summary judgment pursuant to F.R.Civ.P. Rule 56(b) based on the following findings of fact and conclusions of law:

FINDINGS OF FACT

The Federal Aviation Administration ("FAA") issues "Type Certificates" on all aircraft, which allows the plane to fly

within certain specifications (e.g., altitude, airspeed, payload capacity) based on FAA safety standards. *See* 14 C.F.R. §§ 21.11 *et seq.* (Jan. 1, 1989).

A Supplemental Type Certificate ("STC") is a plan modifying the design of an aircraft in some manner beyond the original Type Certificate issued. An STC allows the aircraft to fly with some sort of design modification with FAA approval. The regulatory scheme for STCs found at 14 C.F.R. §§ 21.111 - 21.119, is separate and distinct from the regulation of Type Certificates.

Plaintiff G.S. Rasmussen & Associates, Inc. ("Rasmussen") designed an STC relating to payload increases for DC-8 aircraft. To modify a DC-8 airplane to fly with the Rasmussen STC requires a copy of the STC, a flight manual supplement, three component instruments, and instructions for installing the hardware ("STC Implementation Kit").

Plaintiff admits that none of the hardware or any of the documents that comprise the Rasmussen STC Implementation Kit can be patented, copyrighted, or protected under trade secret law. In the aviation industry, the holder of an STC such as Plaintiff derives income by licensing the STC and Implementation Kit to third parties who want to modify their aircraft.

Because the STC and the Implementation Kit are not protected by patent, copyright, or trade secret law, the primary method for the holder to "protect" its ability to derive income from licensing its STC is through a contract restricting dissemination of the information and hardware.[1] Plaintiff's licensing

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[1] In the present case, Stanmore Corporation's (Plaintiff's predecessor in interest) contract with Lockheed Financial Corporation for an irrevocable transfer of the Rasmussen STC and Implementation Kit contained the following clause:

"The PROGRAM is the proprietary information, invention, and trade secret of SELLER and G.S. Rasmussen, who is the acknowledged owner thereof and BUYER agrees to protect the trade secrets . . . BUYER agrees

agreements also required the licensee to inform Rasmussen of any subsequent transfers the aircraft modified with his STC.

Another way for the STC holder to "protect" its design is to keep tight control over the manufacture and repair of the component instruments needed to implement the STC. The hardware necessary to implement the Rasmussen STC are manufactured and serviced exclusively by A. Biederman. Plaintiff Rasmussen, through its subcontractor Biederman, is the only entity with FAA authority to manufacture or repair the instruments for the Rasmussen STC.

The STC holder must resort to the tactics outlined above to protect its ability to derive income from its design because the Federal Aviation Administration does not police acts of STC "pirating." The FAA's overriding concern is with safety, so as long as an STC-modified aircraft meets safety standards, the FAA is satisfied and does not inquire as to whether the STC has been properly licensed.[2]

Defendant Connie Kalitta Services, Inc. ("Kalitta"), acquired two DC-8 aircraft — a DC-8-21 and a DC-8-51 — both already equipped with Rasmussen STC Implementation Kits.

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that it will not use the documentation provided by the SELLER to develop its own DC-8 zero-fuel-weight-increase program, nor will it provide said documentation to a third party for purposes of developing a DC-8 zero-fuel-weight program."

[2] Plaintiff admits that "[t]he FAA will not take part in private enforcement of infringement or conversion by people who do not have the right to use a STC because they did not obtain that right from the holder. . . . The FAA person issuing the 'airworthiness certificate' never inspected the aircraft and never inquired from the aircraft owner whether or not a 'license' has been obtained. The FAA at this point is only interested in 'aircraft safety' and does not wish to get involved in arguments between the holders of STCs and those individuals who might seek to infringe upon the rights of holders. The FAA will simply do nothing." Plaintiff's Opposition Memorandum, at 14-15.

The previous owners of the two DC-8 aircraft had entered into licensing agreements with Plaintiff's predecessor in interest, Stanmore Corporation.[3] Neither of these licensing agreements were assigned to Defendant Kalitta.

The passenger DC-8-51 that Defendant Kalitta obtained from Maldives was not previously modified with the Rasmussen STC nor equipped with the Implementation Kit. Defendant Kalitta decided to convert this passenger DC-8-51 into a freighter. Kalitta sent the plane to a company called Aerounion in Chico, California, to have a freight door installed.

Plaintiff Rasmussen became aware of Defendant's plans to convert the DC-8-51 into a freighter. Rasmussen first inquired whether the Stanmore-Lockheed licensing agreement pertaining to the modified DC-8-51 had ever been assigned to Kalitta. Defendant Kalitta had no knowledge of the licensing agreement between Stanmore and Lockheed when it bought the two DC-8-51 aircraft from Maldives.

Rasmussen also asked if Defendant Kalitta would be interested in entering into a licensing agreement for an STC on its DC-8-51 that was being converted into a freighter. When Rasmussen asked for $95,000 for his STC, Defendant Kalitta refused to enter into a contract at that price.

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[3] Lockheed Financial Corporation entered into a licensing agreement with Stanmore to modify a DC-8-51 with the Rasmussen STC Implementation Kit. Lockheed sold the modified DC-8-51 freighter to Maldives Airways, Limited ("Maldives"), a foreign airline operating outside of the United States. In turn, Maldives sold the modified DC-8-51 to Defendant Kalitta along with another passenger DC-8-51 that was not equipped with the Rasmussen STC Implementation Kit.

Jetway, Inc. ("Jetway") entered into a licensing agreement with Stanmore to modify a DC-8-21 with the Rasmussen STC Implementation Kit. In December of 1983, Defendant Kalitta purchased the assets, but not the stock or contractual obligations, of Jetway. Included in this sale was the DC-8-21 modified with the Rasmussen STC Implementation Kit.

At this point, Defendant Kalitta decided to "pirate" the Rasmussen STC and install it on the converted DC-8-51. Defendant Kalitta admits that it had "pirated" other STC's in the past and "had never encountered any problems from third parties from doing this." Defendant's Opposition Papers, at 16, lines 12-16.

The Defendant's modified DC-8-51 already contained all of the documentation necessary to obtain an FAA "airworthiness" certificate for the Rasmussen STC modification: a copy of the STC itself and the flight manual supplement, along with all of the necessary drawings and instructions to install the hardware. None of these materials were stamped "Proprietary Information" and none are patented, copyrighted, or protected by trade secret law.

All Kalitta now needed were the three component instruments. Defendant already possessed two of the three instruments. The mach warning switch was salvaged from the modified DC-8-21 (purchased from Jetway) that Defendant ended up scrapping. Included in the inventory purchased from Maldives Airways was a spare airspeed indicator.

Defendant Kalitta used a parts locating system to acquire the final instrument, another airspeed indicator, from a source in Miami, Florida. Kalitta even sent some of these instruments to Rasmussen's exclusive parts source, A. Biederman, who went ahead and performed the repair work, apparently without Rasmussen's authorization. Again, none of these component parts are patented or protected by trade secret law.

Using these "scrap" component instruments along with the documents that came with its already modified DC-8-51, Defendant Kalitta successfully "pirated" the Rasmussen STC and Implementation Kit and installed it on its converted DC-8-51.

Defendant Kalitta had the necessary paperwork to obtain an FAA "airworthiness" certificate on the newly-modified DC-

8-51. Defendant Kalitta is currently flying both modified DC-8-51 aircraft with airworthiness certificates approved by the FAA.

Neither the Stanmore-Lockheed nor the Stanmore-Jetway licensing agreements were ever assigned to Kalitta, and there is no current contract between Plaintiff Rasmussen and Defendant. Plaintiff Rasmussen has not asserted any breach of contract claims against Lockheed or Jetway.

CONCLUSIONS OF LAW

As a matter of law, Plaintiff Rasmussen does not have an intellectual property right in the STCs or the STC Implementation Kits forming the subject matter of this case. Plaintiff has neither a patent nor copyright on the STC itself, nor on the documents and component instruments that comprise the STC Implementation Kit.

The essence of Plaintiff Rasmussen's awkwardly pled claims for "Conversion" and "Unjust Enrichment" is the protection of an intellectual property right in the STC and the documents and instruments that comprise the STC Implementation Kit. Plaintiff cannot create a "quasi-" intellectual property right in STCs simply by quoting sections of the California Civil Code[4] and then concluding that "[i]t is the basic law in the State of California, and elsewhere, that 'rights created by statute' constitute 'property'." Plaintiff's Opposition Memorandum, at 12, lines 14-15.

Furthermore, it would be futile to assert common law intellectual property right claims in the STCs or the documents and instruments forming the STC Implementation Kit because such claims are preempted by federal copyright and patent laws.

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[4] Plaintiff quotes the full text of Cal.Civ.Code §§ 654 and 655 (West 1982) with no further explanation. *See* Plaintiff's Opposition Memorandum, at 11-12.

See Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 109 S.Ct. 971, 975, 103 L.Ed.2d 118 (1989); *See also Avco Corporation v. Precision Air Parts. Inc.*, 210 U.S.P.Q. 894 (M.D. Ala. 1980) (dismissing claims of state common law copyright infringement, misappropriation of trade secrets and unfair competition as preempted by Copyright Revision Act of 1976, where defendant copied plaintiff's drawings and documents to obtain FAA certification to manufacture parts covered by plaintiff's Type Certificate), *aff'd on other grounds*, 676 F.2d 494 (11th Cir.) *cert. denied*, 459 U.S. 1037 (1982).

Defendant's Motion for Summary Judgment is also GRANTED as to the Plaintiff's third claim entitled "Implied Federal Right to Damages and Injunctions." As a matter of law, there is no implied private right of action arising from the Federal Aviation Act or its implementing regulations. An analysis under *Cort v. Ash*, 422 U.S. 66, 78 (1975), does not permit the inference of a private right of action to create and enforce intellectual property rights from the applicable legislation or underlying FAA regulation.

In Paragraph 19 of the Second Amended Complaint, Plaintiff Rasmussen attempts to articulate its theory of recovery based on the *Cort* analysis:

> [T]he United States Government by granting the right to plaintiff to license its STC to third parties, in the Federal Statute authorizing the creation of the Federal Aviation Regulations, has, by implication, established the right of plaintiff to collect damages from the unlawful use of plaintiff's STC by non-licensees described herein, as well as to enforce and enjoin the unlawful use of plaintiff's STC by non-licensee of the same.

Plaintiff Rasmussen's attempt to imply a private cause of action in an FAA regulation fails in numerous respects.

First, contrary to the averment above, the federal *statute* authorizing the creation of the FAA regulations makes no mention whatsoever of Supplemental Type Certificates or their licensing. What Plaintiff Rasmussen is relying on in its attempt to create an implied private cause of action is a federal *regulation*, which is merely permissive in allowing holders of Type Certificates to transfer or make their Type Certificates available through licensing agreements. *See* 14 C.F.R. § 21.47 (Jan. 1, 1990).[5]

It must be noted, however, that Section 21.47 applies only to FAA Type Certificates, which are not even at issue in this action. Plaintiff Rasmussen is the holder of a *Supplemental* Type Certificate, and the regulatory scheme for STCs found at 14 C.F.R. §§ 21.111 - 21.119 (Jan. 1, 1990), contains no provision analogous to § 21.47 regarding the "Transferability" of Type Certificates.

Neither the Type Certificate sections (14 C.F.R. §§ 21.11 - 21.101) nor the Supplemental Type Certificate sections (14 C.F.R. §§ 21.111 - 21.119) contain any language indicating that the Type Certificate "Transferability" provision (§ 21.47) should apply to STCs as well.

The fact that the FAA regulations have completely separate sections regulating Type Certificates, as opposed to Supplemental Type Certificates, would seem to indicate that they are to be treated differently, with no "cross-over" provisions unless specifically indicated. Plaintiff offers no legal or textual support for his presumption that § 21.47 applies to the Rasmussen STC.

Even assuming that the Type Certificate "Transferability" provision applies to the Rasmussen Supplemental Type Certifi-

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[5] Section 21.47 provides in pertinent part: "A type certificate may be transferred to or made available to third persons by licensing agreements. Each grantor shall . . . notify in writing the appropriate FAA Regional Office. The notification must state the name and address of the transferee or licensee, date of the transaction, and in the case of a licensing agreement, the extent of authority granted the licensee." 14 C.F.R. § 21.47 (Jan. 1, 1990).

cate, Plaintiff's implied cause of action theory fails before it even gets started. In *Cort*, the Supreme Court articulated a four-pronged test to determine whether a private cause of action could be implied from a federal statute.[6] The *Cort* analysis, however, is inapplicable here since Plaintiff Rasmussen is relying on a federal regulation, not a statute enacted by Congress, as the sole basis for implying a private cause of action.

Plaintiff apparently recognizes this flaw in its argument,[7] but offers only the following as authority in its attempt to expand the holding of *Cort*:

> In the *Cort* decision the court held that the following factors are relevant in determining whether a private remedy is implicit in a statute (and, *presumably a regulation*) where such a private remedy is not explicitly provided therein . . .

Opposition Memorandum, at 18, lines 14-17 (emphasis added). Plaintiff offers absolutely no legal authority, or even policy justification, for bringing federal regulations within the reach of *Cort*.

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[6] "First, is the plaintiff 'one of the class for whose *especial* benefit the statute was enacted,' — that is, does the statute create a federal right in favor of the plaintiff? Second, is there any indication of legislative intent, explicit or implicit, either to create such a remedy or to deny one? Third, is it consistent with the underlying purposes of the legislative scheme to imply such a remedy for the plaintiff? And finally, is the cause of action one traditionally relegated to state law, in an area basically the concern of the States, so that it would be inappropriate to infer a cause of action based solely on federal law?" 422 U.S. at 78 (citation omitted) (emphasis in original).

[7] Plaintiff states at page 18 of its Opposition Memorandum: "The leading Supreme Court case of *Cort v. Ash* (citation omitted) covers the legal principal of an implied cause of action resulting from a Federal Statute. In the case at hand it is clear that the FAA Regulations are established primarily to guarantee air safety and airworthiness of aircraft. However, they clearly contemplate private proprietary rights in Type Certificates and STCs." Lines 3-9.

There is no precedent for extending *Cort*'s analysis to federal regulations and today's ruling will not establish any. In fact, courts have shown extreme reluctance in implying private causes of action from the Federal Aviation Act, the statute authorizing the promulgation of the FAA Regulations. *See Montgomery v. American Airlines, Inc.*, 637 F.2d 607, 609-10 (9th Cir. 1980), *cert. denied*, 450 U.S. 920 (1981); *Wolf v. Trans World Airlines, Inc.*, 544 F.2d 134, 137-38 (3d Cir. 1976), *cert. denied*, 430 U.S. 915 (1977); *Polansky v. Trans World Airlines, Inc.*, 523 F.2d 332, 337-38 (3d Cir. 1975); *Sanders v. Air India*, 454 F.Supp. 1371, 1378 (S.D.N.Y. 1978).

Furthermore, the portion of the Federal Aviation Act creating the legislative authority[8] for the regulation relied upon by Plaintiff (14 C.F.R. § 21.47) is concerned with safety, not intellectual property rights. *See* 49 U.S.C. §§ 1423 (a) (1) and (2). Courts have specifically declined to find an implied private cause of action arising from this statutory chapter. *See Pavolini v. Bard-Air Corp.*, 645 F.2d 144, 146 (2d Cir. 1981); *Rauch v. United Instruments, Inc.*, 548 F.2d 452, 456-460 (3d Cir. 1976).

Accordingly, IT IS HEREBY ORDERED that the Defendant's Motion for Summary Judgment be GRANTED as to all of the Plaintiff's claims in the Second Amended Complaint.

/s/

Richard A. Gadbois, Jr.
United States District Judge

DATED: July 16, 1990

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[8] Part 21 in title 14 of the Code of Federal Regulations, on "Certification Procedures for Products and Parts," derives its legislative authority in pertinent part from 49 U.S.C. §§ 1421-31. *See* 14 C.F.R. part 21.

APPENDIX C

U.S. CONST. art. I, § 8, cl. 8.

The Congress shall have Power ... To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries ....

APPENDIX D

28 U.S.C.A. § 1254 (1) Courts of appeals; certiorari; appeal; certified questions

Cases in the courts of appeals may be reviewed by the Supreme Court by the following methods:

(1) By writ of certiorari granted upon the petition of any party to any civil or criminal case, before or after rendition of judgment or decree;

28 U.S.C.A. § 1254 (1) (West Supp. 1992).

49 App. U.S.C. § 1302. Consideration of matters in public interest by Board

(a) Factors for interstate, overseas, and foreign air transportation

In the exercise and performance of its powers and duties under this chapter, the Board shall consider the following, among other things, as being in the public interest, and in accordance with the public convenience and necessity:

(1) The assignment and maintenance of safety as the highest priority in air commerce, and prior to the authorization of new air transportation services, full evaluation of the recommendations of the Secretary of Transportation on the safety implications of such new services and full evaluation of any report or recommendation submitted under section 1307 of this Appendix.

(8) The maintenance of a comprehensive and convenient system of continuous scheduled interstate and overseas airline service for small communities and for isolated areas in the United States, with direct Federal assistance where appropriate.

(9) The encouragement, development, and maintenance of an air transportation system relying on actual and potential competition to provide efficiency, innovation, and low prices, and to determine the variety, quality, and price of air transportation services.

49 App. U.S.C. § 1302 (1988).

49 App. U.S.C. § 1423. Aircraft certificates

(a) Authorization to issue; application; investigation; tests; issuance of type certificate

(2) Any interested person may file with the Secretary of Transportation an application for a type certificate for an aircraft, aircraft engine, propeller, or appliance specified in regulations under paragraph (1) of this subsection. Upon receipt of an application, the Secretary of Transportation shall make an investigation thereof and may hold hearings thereon. The Secretary of Transportation shall make, or require the applicant to make, such tests during manufacture and upon completion as the Secretary of Transportation deems reasonably necessary in the interest of safety, including flight tests and tests of raw materials or any part or appurtenance of such aircraft, aircraft engine, propeller, or appliance. If the Secretary of Transportation finds that such aircraft, aircraft engine, propeller, or appliance is of proper design, material, specification, construction, and performance for safe operation, and meets the minimum standards, rules, and regulations prescribed by the Secretary of Transportation, he shall issue a type certificate therefor. The Secretary of Transportation may prescribe in any such certificate the duration thereof and such other terms, conditions, and limitations as are required in the interest of safety. The Secretary of Transportation may record upon any certificate issued for aircraft, aircraft engines, or propellers, a numerical determination of all of the essential factors relative to the performance of

the aircraft, aircraft engine, or propeller for which the certificate is issued.

49 App. U.S.C. § 1423 (1988).

APPENDIX E

Subpart B — Type Certificates

14 C.F.R. § 21.47 Transferability.

A type certificate may be transferred to or made available to third persons by licensing agreements. Each grantor shall, within 30 days after the transfer of a certificate or execution or termination of a licensing agreement, notify in writing the appropriate Aircraft Certification Office. The notification must state the name and address of the transferee or licensee, date of the transaction, and in the case of a licensing agreement, the extent of authority granted the licensee.

14 C.F.R. § 21.47 (1992).

Subpart E — Supplemental Type Certificates

14 C.F.R. § 21.115 Applicable requirements.

(a) Each applicant for a supplemental type certificate must show that the altered product meets applicable airworthiness requirements as specified in paragraphs (a) and (b) of § 21.101 and, in the case of an acoustical change described in § 21.93(b), show compliance with the applicable noise requirements of § 36.7 and § 36.9 of this chapter and, in the case of an emissions change described in § 21.93(c), show compliance with the applicable fuel venting and exhaust emissions requirements of part 34.

(b) Each applicant for a supplemental type certificate must meet §§ 21.33 and 21.53 with respect to each change in the type design.

14 C.F.R. § 21.115 (1992).

14 C.F.R. § 21.117 Issue of supplemental type certificates.

(a) An applicant is entitled to a supplemental type certificate if he meets the requirements of §§ 21.113 and 21.115.

(b) A supplemental type certificate consists of —

(1) The approval by the Administrator of a change in the type design of the product; and

(2) The type certificate previously issued for the product.

14 C.F.R. § 21.117 (1992).

14 C.F.R. § 21.119 Privileges.

The holder of a supplemental type certificate may —

(a) In the case of aircraft, obtain airworthiness certificates;

(b) In the case of other products, obtain approval for installation on certificated aircraft; and

(c) Obtain a production certificate for the change in the type design that was approved by that supplemental type certificate.

14 C.F.R. § 21.119 (1992).

Subpart G — Production Certificates

14 C.F.R. § 21.133 Eligibility.

(a) Any person may apply for a production certificate if he holds, for the product concerned, a-

(1) Current type certificate;

(2) Right to the benefits of that type certificate under a licensing agreement; or

(3) Supplemental type certificate.

(b) Each application for a production certificate must be made in a form and manner prescribed by the Administrator.

14 C.F.R. § 21.133 (1992).

14 C.F.R. § 21.135 Requirements for issuance.

An applicant is entitled to a production certificate if the Administrator finds, after examination of the supporting data and after inspection of the organization and production facilities, that the applicant has complied with §§ 21.139 and 21.143.

14 C.F.R. § 21.135 (1992).

14 C.F.R. § 21.137 Location of manufacturing facilities.

The Administrator does not issue a production certificate if the manufacturing facilities concerned are located outside the United States, unless the Administrator finds no undue burden on the United States in administering the applicable requirements of the Federal Aviation Act of 1958 or of the Federal Aviation Regulations.

14 C.F.R. § 21.137 (1992).

14 C.F.R. § 21.139 Quality control.

The applicant must show that he has established and can maintain a quality control system for any product, for which he requests a production certificate, so that each article will meet the design provisions of the pertinent type certificate.

14 C.F.R. § 21.139 (1992).

14 C.F.R. § 21.143 Quality control data requirements; prime manufacturer.

(a) Each applicant must submit, for approval, data describing the inspection and test procedures necessary to ensure that each article produced conforms to the type design and is in a condition for safe operation, including as applicable-

(1) A statement describing assigned responsibilities and delegated authority of the quality control organization, together with a chart indicating the functional relationship of the quality control organization to management and to other organizational components, and indicating the chain of authority and responsibility within the quality control organization;

(2) A description of inspection procedures for raw materials, purchased items, and parts and assemblies produced by manufacturers' suppliers including methods used to ensure acceptable quality of parts and assemblies that cannot be completely inspected for conformity and quality when delivered to the prime manufacturer's plant;

(3) A description of the methods used for production inspection of individual parts and complete assemblies, including the identification of any special manufacturing processes involved, the means used to control the processes, the final test procedure for the complete product, and, in the case of aircraft, a copy of the manufacturer's production flight test procedures and checkoff list;

(4) An outline of the materials review system, including the procedure for recording review board decisions and disposing of rejected parts;

(5) An outline of a system for informing company inspectors of current changes in engineering drawings, specifications, and quality control procedures; and

(6) A list or chart showing the location and type of inspection stations.

(b) Each prime manufacturer shall make available to the Administrator information regarding all delegation of authority

to suppliers to make major inspections of parts or assemblies for which the prime manufacturer is responsible.

14 C.F.R. § 21.143 (1992).

United States of America

Department of Transportation — Federal Aviation Administration

Supplemental Type Certificate

DEPOSITION EXHIBIT #14 11-14-89 dgp

Number SA4080WE

This certificate issued to G. S. Rasmussen

certifies that the change in the type design for the following product with the limitations and conditions thereon as specified hereon meets the airworthiness requirements of Part 4b of the Civil Air Regulations.

Original Product — Type Certificate Number: 4A25

Make: McDonnell Douglas

Model: DC-8-51

Description of Type Design Change: Modifications in accordance with FAA sealed G. S. Rasmussen Drawing No. 51400001 dated 12/26/79, or later sealed revision, to permit an increase in maximum allowable zero fuel weight. The FAA approved G. S. Rasmussen Supplement No. A dated April 18, 1980, to DC-8 Airplane Flight Manual DJ-30582 is required as a part of this approval. (See Continuation Sheet 3 for revised limits).

Limitations and Conditions: The approval of this change in type design applies to McDonnell Douglas DC-8-51 airplanes only. This approval should not be extended to other aircraft of this model on which other previously approved modifications are incorporated unless it is determined by the installer that the interrelationship between this change and any of those other previously approved modifications will introduce no adverse effect upon the airworthiness of that aircraft. This determination should include consideration of significant changes in weight distribution such as an increase in the fixed disposable weight in the fuselage.

This certificate and the supporting data which is the basis for approval shall remain in effect until surrendered, suspended, revoked, or a termination date is otherwise established by the Administrator of the Federal Aviation Administration.

Date of application: December 26, 1979

Date issued:

Date of issuance: August 21, 1980

Date amended:

By direction of the Administrator

(Signature)

Acting Chief, Aircraft Engineering Division

(Title)

Any alteration of this certificate is punishable by a fine of not exceeding $1,000, or imprisonment not exceeding 3 years, or by

FAA Form 8110-2(10-68)

This certificate may be transferred in accordance with FAR

EXHIBIT Q 309

d/21/80 (I)

Supplemental Type Certificate

(Continuation Sheet)

Number SA4080WE

The following data is the only change to that in Section XII - Model DC-8-51, in Type Certificate Data Sheet 4A25.

44a

Airspeed Limits (IAS)

V_{mo}	(Maximum Operating - S.L.)	315K*
V_{mo}	(Maximum Operating - 33,200 ft.)	315K* (M=0.88)
M_{mo}	(Maximum Operating - 42,000 ft.)	258K* (M=0.88)

*Straight line variation between values shown.

C.G. Range

	C. G. Limit Fwd.	C. G. Limit Aft.*
At MZFW and Max. Ramp Wgt. up to 276,000	853.7**	880.2**
At MZFW and Max. Ramp Wgt. of 278,000	853.7**	871.2

* Straight line variation between values shown.

** For aircraft Serial Number 45807, if DC-8 Service Bulletin 53-69 or its production equivalent which permit a Max. ZFW of 176,500 lbs. is incorporated:

The forward C. G. limit shall be 849.4 and the aft C. G. limit for Max. Ramp Wgt. up to 276,000 lbs. shall be 881.3.

Maximum Weights

The Max. ZFW shall be 184,640 lbs.

- END -

Any alteration of this certificate is punishable by a fine of not exceeding $1,000, or imprisonment not exceeding 3 years, or both

FAA FORM 8110-2-1 (10-80)

This certificate may be transferred in accordance with FAR 21.47.

C FAA AC 72-1681

EXHIBIT
Q
310
ALL-STATE LEGAL SUPPLY CO.

Supreme Court, U.S.

No. 91-1970

In The

Supreme Court of the United States

October Term, 1992

KALITTA FLYING SERVICE, INC.,
CONNIE KALITTA SERVICES, INC.,

Petitioners,

v.

G.S. RASMUSSEN & ASSOCIATES, INC.,

Respondent.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Ninth Circuit

BRIEF IN OPPOSITION

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QUESTION PRESENTED

When the Federal Aviation Administration issues an aircraft Supplemental Type Certificate to a private party and provides by regulation that the certificate may be transferred by the certificate holder, and when that certificate then is "pirated" by an aircraft operator without the consent of the holder, may the holder assert a protectable property right in the use of the certificate so as to recover in tort against the party who "pirated" it?

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No. 91-1970

In The

Supreme Court of the United States

October Term, 1992

KALITTA FLYING SERVICE, INC.,
CONNIE KALITTA SERVICES, INC.,

Petitioners,

v.

G.S. RASMUSSEN & ASSOCIATES, INC.,

Respondent.

On Petition For A Writ Of Certiorari
To The United States Court Of Appeals
For The Ninth Circuit

BRIEF IN OPPOSITION

This case is between two private parties over the unauthorized, "pirated" use by petitioners of a Supplemental Type Certificate (STC) issued to respondent G.S. Rasmussen & Associates, Inc. (Rasmussen)[1] by the Federal Aviation Administration (FAA). Nothing in the decision of the Court of Appeals limits or restricts the authority of the FAA.[2] The decision neither prohibits nor

[1] Respondent has no affiliated corporations. Supreme Court Rule 29.1.

[2] The FAA has not participated in this case as a party or amicus.

discourages petitioners from obtaining their own STC, from preparing and submitting technical innovations, or from taking any steps to promote air safety or air cargo transportation efficiency. The decision below recognizes that when petitioners use a photocopy of an STC as if it were a licensed STC, thereby "pirating" the STC for economic advantage, respondent may recover tort damages from petitioners and may do so in district court pursuant to the court's diversity jurisdiction (28 U.S.C. §1332(a)(1)).

STATEMENT OF THE CASE

George Rasmussen is an aeronautical engineer with extensive experience in the aviation industry. CR 53, pp. 2-3; Petition, App. 5a-6a. Since 1954, Rasmussen has worked for numerous aircraft manufacturers and airframe modifiers, and is certified by the FAA as a "Designated Engineering Representative," which authorizes him to approve engineering data on behalf of the federal government in the certification of aircraft. One specialty for which Rasmussen is certified is "basic loads," a specialty concerning the external loads used to design an aircraft. CR 53, pp. 2-3.

In 1978, Rasmussen was issued his first STC by the FAA. CR 53, p. 3. STCs are issued to specific individuals who have made design modifications of a particular aircraft and who have demonstrated the safety of their design to the FAA, pursuant to Federal Aviation Regulations, 14 C.F.R. §§21.113-21.119. An STC is a supplement and/or modification to a Type Certificate issued by the

FAA pursuant to 49 U.S.C. §1423 (a)(2) and 14 C.F.R. §21.21(b). To obtain an STC, an individual may be required to perform comprehensive research, create numerous computer programs involving complex technical engineering data, and perform thorough tests of all design modifications. Contrary to petitioners' statement to this Court (Petition, p. 3), the information submitted to the FAA by applicants such as Rasmussen is treated by the FAA as proprietary data and is not released to the general public. CR 46, pp. 55-56; CR 48, p. 259; CR 53, p. 13. The STC states on its face that it is transferable pursuant to FAR [14 C.F.R.] §21.47. CR 53, Ex. E; CR 48, p. 309; Petition, App. 5a-7a, 13a-14a.[3]

Rasmussen now holds 20 or more STCs issued by the FAA, including STCs for modifying the maximum zero fuel weight for DC-8 aircraft. CR 46, p. 58; Petition, App. 6a n. 2. In 1987, rights to the STCs were transferred by Rasmussen to respondent G.S. Rasmussen & Associates, Inc. CR 53, p. 3. The Rasmussen STC involved here permits DC-8 aircraft to carry substantially increased cargo payloads. CR 53, Ex. A, p. 1, Ex. B; Petition, App. 5a-6a.

Rasmussen transfers the right to use the Rasmussen STC under a purchase agreement for a non-exclusive license to use the STC for a particular aircraft. CR 46, p. 48; CR 53, p. 5. The transferee receives a copy of the STC issued to Rasmussen by the FAA for that aircraft, a flight manual supplement, and instruments needed to modify

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[3] The reproduction of a Rasmussen STC at Petition, App. 43a bears an exhibit stamp which partially screens the transfer language of the FAA.

the aircraft. CR 69, p. 2; *see also* CR 46, pp. 47-50; Petition, App. 6a.

In 1987, Kalitta, through a third party, acquired three DC-8 passenger aircraft. CR 45, p. 2; Petition, App. 6a-7a. Kalitta then decided to convert one of those aircraft to an air freight carrier. Rasmussen learned of the proposed modification being performed for Kalitta. CR 53, p. 8; CR 46, pp. 119-120. Aware that the Rasmussen STC would be necessary to operate the aircraft economically, Rasmussen contacted Kalitta and proposed an agreement with a purchase price of $95,000. CR 53, Ex. F, F-1. No reply was received. In 1988, Kalitta told Rasmussen that Kalitta intended to operate outside of the United States and a Rasmussen STC would not be required. CR 53, pp. 10-11.

Kalitta's representation was false. Kalitta had instead concluded that by pirating the STC and photocopying the necessary paperwork, Kalitta could modify the aircraft without paying Rasmussen. CR 69, p. 5. Kalitta had pirated other STCs in the past. CR 48, p. 200; CR 69, p. 5. Kalitta photocopied and used the documents found on different aircraft. CR 69, pp. 5-6; Petition, App. 6a-7a.

In 1989, a complaint for damages and injunctive relief was filed by Rasmussen against Kalitta in the United States District Court, Central District of California. CR 1. In granting Kalitta's subsequent motion for summary judgment, the district court concluded that although Kalitta had "pirated" the Rasmussen STC, Rasmussen had no protectable property right in the STC issued to Rasmussen and no remedy. Petition, App. 7a, 28a-30a; R.T. 9-10.

The Court of Appeals reversed in part, affirmed in part, and remanded the matter for further proceedings. Petition, App. 23a. The Court of Appeals recognized that Rasmussen's interest in the STC satisfied the criteria for a property interest under California law. Petition, App. 7a-14a. The Court of Appeals held that recognition of the property interest was consistent with federal law, including the Federal Aviation Act, and served to further the purposes of civil aircraft flight safety under the Act. Petition, App. 18a-20a. Similarly, the Court of Appeals recognized that there is no preemption under either the Copyright Act or patent law. Petition, App. 14a-18a.

REASONS FOR DENYING THE WRIT

I.

THE DECISION BELOW NEITHER ALTERS NOR LIMITS THE FAA'S AUTHORITY OR PRACTICES, NOR DOES IT AFFECT CIVIL AIRCRAFT INDUSTRY OPERATIONS. THE DECISION RECOGNIZES THAT PROTECTING AN OWNER OF A PROPERTY RIGHT FROM A TORTIOUS MISAPPROPRIATION OF THAT RIGHT IS CONSISTENT WITH EXISTING LAW AND ADMINISTRATIVE PRACTICES.

The petition for certiorari rests upon a mischaracterization of the ruling of the Court of Appeals. The claim of the petition is that by recognizing Rasmussen's property interest in the STC issued by the FAA, the Court of Appeals significantly restricted or altered the authority and power of the FAA. Petition, pp. 2-9. There is no

support for this contention in the record, in FAA regulations or policies, in existing industry practices, in prior case law, or in the decision of the Ninth Circuit.

Petitioners' principal argument in this Court (Petition, pp. 5-9) is that recognizing Rasmussen's right to receive compensation for the transfer of the STC "usurps from the FAA the power to determine" when to use or disclose data in the public interest. Petition, p. 5. In its broadest terms, the petition argues that Rasmussen has been granted "the power to control and limit the FAA's aircraft certification process." Petition, p. 5.

By focusing upon the FAA and by mischaracterizing the effect of the decision on the FAA, petitioners hope to bring this case within the holding of *Ruckelshaus v. Monsanto Co.*, 467 U.S. 985 (1984). The effort fails, for resolution of the Rasmussen/Kalitta dispute in Rasmussen's favor has no effect on the FAA's control of data, or the FAA's ability to issue STCs, to continue to provide for transferability of STCs, and to certify airworthiness. There is nothing in the record to support petitioners' claim, and the decision of the Court of Appeals has no impact upon any powers of the FAA.

Rasmussen makes no claim – and the Court of Appeals creates none – of dominion over the FAA's operations. Rasmussen's only claim is the right to transfer to third parties for compensation the rights the FAA

provides Rasmussen when the agency issues the STC. Thus, *Monsanto* has no application.[4]

The existing practice of the FAA is to treat STC type design data as proprietary and confidential. CR 46, pp. 55-56; CR 48, p. 259; CR 53, p. 13. Nothing in the Court of Appeals decision alters that practice, and nothing in the decision mandates that the FAA either continue *or discontinue* the FAA's existing practice. Petition, App. 12a n. 11.

The FAA recognizes the transferability of the STC issued by the FAA, and the agency is free to continue this policy (which started well before the Rasmussen/Kalitta contest arose). The Court of Appeals decision recognizes the FAA's existing practice and applies it to Rasmussen's claim of property rights, but does not purport to control the FAA's policies or the FAA's rulemaking authority, either now or later.

Inconsistent with petitioners' efforts to conjure up images of Rasmussen "usurp[ing]" the FAA's powers, the STC itself, in language prepared by the FAA, states that the STC is transferable by the holder. The language that appears on the face of the STC is as follows:

> This certificate [is] issued to G.S. Rasmussen . . .
>
> . . . .

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[4] Petitioners raised no *Monsanto* claim in the district court or the Court of Appeals. Petitioners did not raise even generally the issue of claimed interference with the FAA. The question is not properly presented in the petition for certiorari. *Youakim v. Miller*, 425 U.S. 231, 234 (1976).

> This certificate may be transferred in accordance with FAR [14 C.F.R. §] 21.47

See CR 53, Ex. E.[5]

The FAA considers STCs to be transferable in the same manner as Type Certificates. See 14 C.F.R. §21.47; Petition, App. 9a n. 8. The Court of Appeals pointed out that the regulations "confer exclusive privileges on the holder of an STC, and provide for transfer and licensing." Petition, App. 19a. These regulations contemplate a valid property right in the transference of STCs by the certificate holder. Petition, App. 19a-20a.

Permitting the STC holders to transfer STCs is useful to the FAA and is consistent with the statutes and regulations as part of the public/private licensing and enforcement plan in place at the FAA.[6] It also encourages

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[5] See footnote 3, *ante*.

[6] This Court has considered previously the FAA's multi-step certification process, including the role of STCs in airplane design, modification, and production. *United States v. Varig Airlines*, 467 U.S. 797, 804-807 (1984). STCs are created by the FAA incident to a comprehensive scheme to promote air safety. 467 U.S. at pp. 804-805.

Once an STC has been issued by the FAA, the FAA monitors compliance with it, but "the duty to ensure that an aircraft conforms to FAA safety regulations lies with the manufacturer and operator . . . . " *Varig Airlines*, at p. 816. The FAA has only a "spot check" system for reviewing compliance with Type Certificates and STCs, with the degree of inspection depending in part upon the reliability and experience of the operator. 467 U.S. at pp. 816-819.

successive and ongoing modifications of existing aircraft designs and operations, all within the mission of the FAA. Petition, App. 18a-20a.

As this Court has observed, the purpose of the statutes and regulations which govern STCs is "to promote the safety of flight of civil aircraft in air commerce by establishing minimum standards for aircraft design, materials, workmanship, construction, and performance." *United States v. Varig Airlines*, 467 U.S. 797, 804 (1984). *See also*, Petition, App. 18a. As the Court of Appeals explained, recognizing Rasmussen's property right is consistent with "this guiding purpose." Petition, App. 18a. Recognizing Rasmussen's interest in the STC allows Rasmussen to monitor the use of the STC, share information with transferees, and disseminate changes. Petition, App. 19a. It also encourages Rasmussen to update and modify the STCs, and to produce worthwhile innovative changes. *Ibid.* In each of these respects, the FAA's role is enhanced and the regulatory scheme furthered. Contrary to the claims of petitioners, the recognition of Rasmussen's right to receive compensation for the transfer and use of the STC "usurps" nothing from the FAA.

Rasmussen has other interests consistent with the FAA practice of recognizing transferability, each of which supplements and furthers the FAA's purposes. First, Rasmussen can recapture his time and money; if the STC could be "pirated" with impunity, there would be no incentive to develop the design or modify it. Petition, App. 19a. Second, by limiting the use through licensing, Rasmussen retains control over, and protection from, indust[illegible] practices which might otherwise lead to increased safety problems. Petition, App. 8a n. 6.

If Rasmussen had no protectable property rights in the STCs, and had no remedy for Kalitta's pirating of those STCs, then Rasmussen would have no legal ability to stop Kalitta or anyone else from making unlimited numbers of copies. Under petitioners' analysis, Rasmussen would have no supervision over the uses or transfers of the STC, yet Rasmussen would face essentially unlimited liability[7] for injuries arising out of any accident involving a Rasmussen-STC-equipped cargo plane.[8] Petitioners' analysis is not persuasive.

The FAA's practice of issuing the STC to a particular holder (such as Rasmussen) and permitting transfers for consideration has led to the creation of a well-recognized

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[7] The likelihood of liability claims arising from air disasters, oftentimes involving claims of improper issuance, use of, or maintenance of STC systems, is neither imaginary nor speculative. *See, e.g., Texasgulf, Inc. v. Colt Electronics Co., Inc.*, 615 F.Supp. 648 650 (S.D. N.Y. 1984); *Gregory v. Garrett Corp.*, 578 F.Supp. 871 (S.D. N.Y. 1983).

[8] As the Court of Appeals understood, Rasmussen cannot avoid liability by relying upon Kalitta's compliance with other FAA air worthiness regulations. Petition, App. 8a. Satisfaction of FAA regulations is not a complete defense against the STC holder or manufacturer. *See Elsworth v. Beech Aircraft Corp.*, 37 Cal.3d 540, 546 - 548 (1984); Petition, App. 8a n. 6. Under petitioners' theory, should Kalitta misuse the STC, if the STC's design should prove unsafe in light of changes in technology or use, if Kalitta should fail to maintain the equipment, or even should an accident for any reason occur with an aircraft bearing a Rasmussen STC, Rasmussen faces vast claims of liability, all in exchange for nothing from Kalitta. There is nothing in the federal law or the FAA regulations to mandate or encourage that result, and the FAA has not imposed that rule.

marketplace for STCs. The record below established that a "substantial industry," involving transfer fees of millions of dollars paid annually, exists in the United States for the sale and licensing of STCs. CR 53, pp. 8 - 14.[9] STCs have an everyday, actual value in the aviation marketplace. The Court of Appeals decision does nothing to "usurp" the FAA's authority in that regard, either.

Petitioners' second argument (Petition, pp. 8 - 11) is a related claim that an "important question" of federalism is presented by the Rasmussen/Kalitta dispute. The argument rambles from "important and troubling questions" to a "Pandora's box" to design modifications which "quite literally . . . require the reinvention of the wheel." Petition, pp. 9 - 11. Despite the hyperbole, no "special and important reasons" are presented for this Court's review. Supreme Court Rule 10.1.

The regulatory scheme for developing and issuing STCs falls within the scope of authority of the FAA. The property interest recognized here by the Court of Appeals is consistent with the existing regulations and practices.

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[9] The industry market in STCs is documented in the reported cases as well. *See, e.g., Lineas Aereas del Caribe v. Dep't of Transportation*, 791 F.2d 972 (D.C. Cir. 1986) (FAA grants exemption to operators who enter into contracts for use of STCs); *Doyn Aircraft, Inc. v. Wylie*, 443 F.2d 579 (9th Cir. 1971) (judgment affirmed for damages arising from breach of contract and conversion of STCs); *Silver Air v. Aeronautic Dev. Corp.*, 656 F.Supp. 170 (S.D. N.Y. 1987) ($16.8 million contract for STC-based "hush kit" modifications to DC-8); *Gibbs v. United States*, 251 F.Supp. 391, 395 - 396 (E.D. Tenn. 1965) (recognizing that one party was in the business of selling STCs and implementation kits "to various people over the country.").

If any of the dire consequences now forecast by petitioners should come to pass, there is no reason to believe that the FAA and Congress cannot remedy the situation. *See* Petition, App. 12a n. 11: "The FAA might decide to alter or revoke the exclusivity of STCs. . . . " Petitioners' concerns are more imagined than rooted in fact or the record. " 'Special and important reasons' [for granting review by certiorari] imply a reach to a problem beyond the academic or the episodic." *Rice v. Sioux City Cemetery*, 349 U.S. 70, 74 (1955).

Petitioners' second argument is undercut further by the lengths to which petitioners go to reform the Court of Appeals decision and the factual record below. Underlying all of the petitioners' uproar over the federal regulatory scheme and the relationship with the States are misstatements about the effect of the decision on the FAA.

Petitioners argue repeatedly that the Court of Appeals has given Rasmussen the right to prevent all others (including the FAA) from using Rasmussen's ideas or data. Petition, p. 9 n. 9; *see also*, p. 2 ("Court of Appeals held that Rasmussen could prevent Kalitta from referring to" the STC); p. 4 (Rasmussen may "exclude all others"); p. 5 (decision allows "Rasmussen to prohibit" use of STC and "grants Rasmussen the power to control and limit the FAA's aircraft certification process"); p. 6 ("the Court of Appeals effectively limited the FAA's internal use of Rasmussen's data. . . . "); pp. 6 - 7 (Rasmussen can "limit use of its prior efforts and data" and "limit the FAA's ability to consider and rely upon the FAA's own prior determinations. . . . "). That, however, is not this case, and reiteration by petitioners does not make it so. Nothing in

the record or in the Court of Appeals decision indicates any Rasmussen control over the FAA or any adverse implications for the FAA, for air safety, or for anyone other than Kalitta.[10] The FAA retains its full regulatory powers. As Justice Frankfurter observed, "Answers are not obtained by putting the wrong question and thereby begging the real one." *Priebe & Sons v. United States*, 332 U.S. 407, 420 (1947).

Finally, there is nothing in the record to support petitioners' claim that "the FAA had clearly demonstrated that it did not consider the grant of an STC to Rasmussen to be an exclusionary property interest." Petition, p. 8. The FAA, as the Court of Appeals noted, advised Rasmussen of the right of the holder of the STC (Rasmussen) to transfer the STC pursuant to 14 C.F.R. §21.47. Petition, App. 9a. What the FAA does *not* do is devote its limited number of personnel to enforcement of that personal property right, and it instead leaves Rasmussen to his private legal remedies. Petition, App. 10a.[11]

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[10] Petitioners assert that Kalitta and Rasmussen "are not competitors." Petition, p. 2. Kalitta, however, is the competitor of Rasmussen's customers.

[11] Petitioners also argue that California law should not apply, and that this Court should look (generally) to Michigan law. Petition, pp. 9 - 10. In the district court and in the Court of Appeals, however, all parties applied California law, disagreeing only on whether California law recognized a property right. CR 44, pp. 35 -36; CR 69, p. 7; Brief for Appellees, pp. 11, 28 - 32. Petitioners' new complaint of the application of California law was not presented to the lower courts. It is of no significance on the petition for certiorari. *Patrick v. Burget*, 486 U.S. 94, 99 n. 5 (1988).

II.

THE DECISION BELOW RECOGNIZES THAT STATE TORT CLAIMS FOR APPROPRIATION OF FAA-ISSUED CERTIFICATES ARE NOT BARRED BY FEDERAL PREEMPTION LAW.

Petitioners labor mightily to make Rasmussen's STC into a "patent-like" or "public domain" property right claim. Petition, pp. 12 - 16. By doing so, petitioners hope Rasmussen's claim will become preempted by federal patent or copyright law. See *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989) and *Feist Publications, Inc. v. Rural Telephone Service Co.*, ___ U.S. ___, 111 S.Ct. 1282 (1991). The Court of Appeals addressed these claims cogently and completely and properly rejected them. Petition, App. 15a - 18a.

Rasmussen's property interest is created by, and derived through, the value of the STC as an entitlement issued by the FAA, which can be transferred according to FAA regulation. As the Court of Appeals observed, the value of the STC lies in its "use as a shortcut in obtaining a valuable government privilege – the right to modify an airplane in a particular way without going to the trouble and expense of proving that the modification meets FAA standards." Petition, App. 15a. There is no preemption arising from the recognition of this right.

A. There is no Copyright Preemption for an STC Issued by the FAA.

An STC may be valuable "property," but not because it has any new or original expression of ideas displayed

on it. The certificates are not visually arresting or creative; the arrangement of words is less than stirring.[12] The government privilege conferred by an STC is no more protected by, or rooted in, copyright law than a driver's license, diploma, liquor license, deed of trust, or list of telephone numbers.

The Copyright Act was never intended to preempt all claims arising out of intangible property. Rather, the Copyright Act of 1976 intended to preempt local and state *copyright* claims, abolish the dual copyright systems that existed, and establish a single, uniform copyright system. 17 U.S.C. §301(a). As the Court of Appeals held, preventing Kalitta from using photocopies "to obtain an airworthiness certificate from the FAA does not interfere in any way with the copyright laws." Petition, App. 16a.

There is an additional, independent reason why preemption does not occur under the Copyright Act. Section 301(d) of the Act provides that nothing in the Act "annuls or limits any rights or remedies under any other federal statute." That provision was intended to clarify that the Act did not *sub silencio* infringe upon other rights previously recognized by Congress. 1 Nimmer, Nimmer on Copyright (1988) §1.01[B], pp. 1-28.1 - 1-29 (subsection (d)) "makes explicit a point that is probably [otherwise] implicit. . . . ").

---

[12] The document is a preprinted government form (FAA Form 8110-2 (10-68)) identifying specific information typed onto it under such categories as "Description of Type Design Change" and "Limitations and Conditions." CR 53, Ex. E; Petition, App. 43a.

The authorization of the FAA to issue a type certificate and, by regulation and practice, an STC, derives from 49 U.S.C. §1423. The Court of Appeals correctly reconciled the federal aviation statutes and FAA regulations with the Copyright Act.

B. There Is No Patent Law Preemption for an STC Issued by the FAA.

The cornerstone of petitioners' patent law preemption claim is the contention that requiring Kalitta to pay for the use of Rasmussen's STC means that "Kalitta cannot use the public non-patented knowledge" of the STC. According to petitioners, the "knowledge" or underlying data is "patent-like." Petition, p. 13. Thus, petitioners try to bridge the gap from a non-exclusive STC issued by the FAA to the holding in *Bonito Boats, supra,* 489 U.S. 141. The effort falls short, as the Court of Appeals understood and explained. Petition, App. 16a - 18a.

Protecting Rasmussen's property right in the STC does not vest in Rasmussen any exclusive right to any process, machine, manufacture, composition, or design. As the Court of Appeals concluded, recognizing state tort law protection for the STC issued by the FAA does not conflict with or interfere with the federal patent scheme. Petition, App. 16a - 18a, citing *Bonito Boats, supra,* 489 U.S. 141; *Aronson v. Quick Point Pencil Co.,* 440 U.S. 257 (1979); *Kewanee Oil Co. v. Bicron Corp.,* 416 U.S. 470 (1974). The purposes of the federal patent system, as reiterated in *Aronson,* are as follows:

> First, patent law seeks to foster and reward invention; second, it promotes disclosure of

> inventions to stimulate further innovation and to permit the public to practice the invention once the patent expires; third, the stringent requirements for patent protections seek to assure that ideas in the public domain remain there for the free use of the public.

Aronson, 440 U.S. at p. 262.

With regard to the first objective – rewarding invention – state laws which provide additional incentives to invention do not conflict with the federal patent scheme. *Kewanee, supra*, at p. 484; *Aronson, supra*, at p. 262. The Court of Appeals correctly reconciled patent law and the FAA's independent federal regulatory system which rewards and encourages invention by issuing STCs. Petition, App. 17a - 18a. The certification process of the FAA encourages the development of methods for improving the safety and efficiency of the air transportation industry. *See Varig Airlines, supra*, 467 U.S. at pp. 804 - 807. As a reward for those efforts, the developers are granted permission to use their design and to transfer or license the use to other persons wishing to take commercial advantage of the changes authorized by an STC. Petition, App. 17a.

To further induce participation in this program, the FAA has established that STCs are transferable interests, thus increasing the value of the STCs in the aviation industry. This, in turn, encourages innovation. Congress and the FAA have determined that the best way to encourage innovation, safety, and development in this field is to provide for STCs and for their transferability. Petition, App. 18a - 20a.

The second purpose of the patent laws is to promote the disclosure of inventions so as to spur additional inventions. Pursuant to the FAA regulations, the government regulators have determined that it is in the best interests of the aviation industry to control certain manufacturing innovations while stimulating their production. Rasmussen's STC does not grant the holder the exclusive right to use a type of given design, but only recognizes and approves the work, efforts, and data of the Rasmussen STC for a specific design. There is no bar to any other party developing its own similar design or an improved or modified one and thereby qualifying for an STC. Conflict should not be implied or created where neither the legislative branch nor the FAA has found one. *See Bonito Boats, supra,* 484 U.S. at p. 155; *Kewanee Oil Co., supra,* 416 U.S. at pp. 470 - 471.

The third purpose of the federal patent law is to ensure that ideas already within the public domain remain there. In issuing STCs, the FAA protects the submitted data as propriety information, so the presence of the data in the public domain already is limited. In *Kewanee,* this Court held that the existence of trade protection secrets (which keep information "secret" by definition) is not incompatible with the policy that information "once in the public domain must remain in the public domain." *Kewanee, supra,* 416 U.S. at p. 484. The same analogy applies to the certification process for STCs. Despite petitioners' characterizations in the petition, STCs do not pose threats that any information currently in the public domain would become unavailable to the general public. Petition, App. 17a - 18a.

III.

THE REMAND TO THE DISTRICT COURT BY THE COURT OF APPEALS FOR FURTHER PROCEEDINGS RAISES NO REASON FOR AN EXERCISE OF THIS COURT'S JUDICIAL DISCRETION

Petitioners' final argument is that the remand instructions from the Court of Appeals to the district court were overly restrictive, so as to deny petitioners their right to trial. Petition, pp. 16 - 17. This issue, largely procedural, was not presented to the Court of Appeals, as petitioners did not request rehearing (Fed. R. App. P. 35, 40). This case has been remanded to the district court for further proceedings consistent with the opinion of the Court of Appeals. Petition, App. 23a. No "deprivation of [Kalitta's] right to trial" (Petition, p. 17) occurred. No special and important questions are presented by the remand order.

IV.

CONCLUSION

For the foregoing reasons, the petition for writ of certiorari should be denied.

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IN THE

Supreme Court of the United States

OCTOBER TERM 1991

KALITTA FLYING SERVICE, INC.,
CONNIE KALITTA SERVICES, INC.,
Petitioners,

v.

G.S. RASMUSSEN & ASSOCIATES, INC.,
Respondent.

On Petition for a Writ of Certiorari to the
United States Court of Appeals
for the Ninth Circuit

REPLY BRIEF IN SUPPORT OF THE PETITION FOR A WRIT OF CERTIORARI

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On Petition for a Writ of Certiorari to the
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for the Ninth Circuit

REPLY BRIEF IN SUPPORT OF THE PETITION FOR A WRIT OF CERTIORARI

Petitioners Kalitta Flying Service, Inc. and Connie Kalitta Services, Inc. (hereinafter, collectively "Kalitta")[1] hereby submit their Reply Brief in Support of the Petition for a Writ of Certiorari.

ARGUMENT

I. THE COURT OF APPEALS' HOLDING WILL DISRUPT AND INTERFERE WITH THE FAA'S REGULATORY SCHEME

In its Brief In Opposition ("Opposition"), Respondent G.S. Rasmussen & Associates, Inc. ("Rasmussen") argues that the

[1] As indicated in the Petition, (Petition at 1 n.1), in accordance with Supreme Court Rule No. 29.1, there are no parent companies or subsidiaries of either corporate petitioner.

Court of Appeals' decision did not affect or limit the FAA's authority or practices in any significant way. (Opposition at 5-6.) In particular, Rasmussen contends that the Court of Appeals did nothing more than recognize Rasmussen's right to receive compensation for the transfer of the STC at issue. (*Id.* at 6-7.) Proceeding from this premise, Rasmussen argues that recognizing its right to receive compensation for the transfer of an STC implies no restrictions on the FAA's authority or activities. (*Id.* at 6-13.)

Rasmussen's argument, however, rests upon a fundamental mischaracterization of the substance and scope of the Court of Appeals' decision. Contrary to Rasmussen's assertions, the Court of Appeals did much more than merely recognize the right of Rasmussen to receive compensation for the transfer of the STC at issue.[2] The Court of Appeals held that Rasmussen has the right to prevent all others from using or referring to the STC in applying to the FAA for an airworthiness certificate. (Petition, App. at 14a, 20a-21a.) Rasmussen's ability to transfer its STC and to receive compensation for such transfers is simply not at issue. What is at issue is Rasmussen's right to prevent the world, other than selected transferees and licensees, from using or referring to the STC or the admittedly unprotected underlying ideas disclosed on the face of the STC to obtain an airworthiness certificate.[3]

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[2] A cursory review of the record below makes clear that there was no transfer of the STC or the STC implementation kit to Kalitta. Rasmussen's offer to sell its STC implementation kit to Kalitta for $95,000 was refused. (Petition, App. at 27a.) The issue decided below by the Court of Appeals was whether Rasmussen was entitled to damages for Kalitta's use of a copy of the STC (a public document), its reference to the STC in its application to the FAA, and its use of an uncopyrighted flight manual supplement which Kalitta found in the public domain.

[3] Rasmussen's assertion that it "faces vast claims of liability" as the result of Kalitta's use of the STC, (Opposition at 10 n.8), is unsupported by citation to any applicable case law. Moreover, Rasmussen does not explain how it

Once the substance and scope of the Court of Appeals' decision is understood, it is clear that the result of that decision will be to empower Rasmussen and other STC developers to prevent all others from using or referring to previously issued STCs in applying to the FAA. Although this is not a direct restriction on the power of the FAA, the effect on the FAA's aircraft certification process is nonetheless apparent and substantial. The FAA can fulfill its role to streamline the certification process and ensure safety only in connection with approving or disapproving applications for airworthiness certificates. If Rasmussen and other STC developers have the power to limit the class of airworthiness applicants by preventing or discouraging those applicants from referencing the existence of previously issued STCs, the FAA's certification process will be disrupted.[4]

Moreover, creation of a property interest in an STC also has potentially more direct and intrusive effects upon the FAA's regulatory mission. If an STC developer can prevent an airworthiness applicant from referencing an STC, there is little reason why that developer should not be able to take similar preventative action against the agency itself. Indeed, the Court of Appeals specifically recognized this potential ground for relief.[5]

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could be held liable on any tort theory under the facts of this case. In fact, it is difficult to imagine how Rasmussen could establish such requisites of liability as a duty of care, causation, and privity where Rasmussen could not be shown to have participated in or benefitted from the Kalitta modification of DC-8 aircraft.

[4] For instance, the Court of Appeals' holding would require the FAA to expend its resources reapproving subsequent identical aircraft design modifications. This is plainly an inefficient use of the agency's time.

[5] The Court of Appeals stated that "Rasmussen might have been entitled to bring an APA action challenging the issuance of the STC, had he acted in a timely fashion." (Petition, App. at 9a n.10.)

There is no better example of the disruption of the FAA's certification scheme than this very case. All parties agree that the design modification approved by the FAA in connection with the STC issued to Rasmussen is highly useful and beneficial. Rasmussen's STC is, however, based upon the enormous data, testing, and expenditures attendant to the issuance of the original DC-8 type certificate. The Court of Appeals' grant to a certificate developer of the power to prevent use of that certificate by others means that Rasmussen could have been effectively prevented from obtaining his STC by the developer of the DC-8 type certificate. Since there is no evidence in the record to suggest that Rasmussen obtained the permission of the developer of the original type certificate to use or copy the type certificate in his STC application, Rasmussen's STC is itself apparently the result of "piracy."[6] If the Court of Appeals' ruling is correct, then Rasmussen would have in all likelihood never been able to obtain his STC, and the admittedly useful modification it embodies would not be available to the aviation community.

II. CREATION OF A PROPERTY RIGHT UNDER STATE LAW IN AN STC IS PREEMPTED UNDER THE FEDERAL PATENT AND COPYRIGHT LAWS

Rasmussen attempts to remove this case from the holding of *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989), by arguing that recognition of a property interest in the STC does not conflict with the policies underlying the patent laws. (Opposition at 16-18.) Contrary to Rasmussen's assertions, here the recognized property interest conflicts with the strong federal policy requiring the free use of utilitarian ideas, products, processes, and methods in the public domain and is therefore preempted.

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[6] As Rasmussen notes, "[t]he FAA considers STCs to be transferable in the same manner as Type Certificates." (Opposition at 8.) Thus, the Court of Appeals' rationale for recognizing the existence of a property right in an STC extends to a type certificate as well.

Rasmussen did not seek or obtain protection of its design, method, or data under the patent or copyright laws. (Petition, App. at 25a.) Similarly, Kalitta was not contractually bound to compensate Rasmussen for use of the STC. (*Id.*, App. at 27a.) Nonetheless, the Court of Appeals attempted to remedy what it believed was Kalitta's "free-riding" on Rasmussen's efforts through the recognition of a property right in the STC. (*Id.*, App. at 7a-9a, 14a.)

The reasoning employed by the Court of Appeals is in direct conflict with federal patent policy. Under the Court of Appeals' "free-rider" analysis, there is no reason why other property interests should not be recognized in products, processes, or methods which are clearly patentable so long as the inventor expended time and effort developing or discovering those products, processes, or methods. Indeed, the effect of the Court of Appeals' holding will be to provide protection of unlimited duration to patentable ideas in the form of property interests as a reward for invention. Clearly, however, such a result is inherently in conflict with the patent laws. *Cf. Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 489-90 (1974) (trade secret laws not preempted with respect to clearly patentable inventions since protection afforded is far weaker than that afforded under the patent laws).

Bonito Boats makes clear that state laws which substantially interfere with the use of unpatented utilitarian or design conceptions in the public domain are preempted by federal patent policy. 489 U.S. at 156-57. The Court of Appeals' recognition of a property interest in an STC thwarts and disrupts federal patent policy by denying to Kalitta free use of the information it lawfully obtained. *See Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979) ("stringent requirements for patent protection seek to assure that ideas in the public domain remain there for the free use of the public").

Unlike the trade secret laws at issue in *Kewanee Oil*, state contract law relating to intellectual property at issue in *Aronson*, and the common-law tort of unfair competition, *see Bonito Boats*, 489 U.S. at 157-58, state property law strikes at the very heart of federal patent policy. If an inventor believes that he will obtain a property right of unlimited duration in an intellectual discovery merely because he expended time and effort, there will be no incentive to seek patent protection. Moreover, the inventor will have the right to exclude the world from using unpatented utilitarian or design conceptions which he has placed into the public domain in contravention of the federal patent laws.

Rasmussen's claim that there is no copyright preemption is similarly flawed. First, its assertion that "[t]he Copyright Act was never intended to preempt all claims arising out of intangible property ... ," (Opposition at 15), is conclusory and proves nothing in the context of this case. In addition, Rasmussen's reliance upon section 301(d) of the Copyright Act, (17 U.S.C. § 301(d)), is equally misplaced. The FAA's authorization to issue type certificates and STCs is not in question here. Rather, the issue is whether the creation of a property right in an STC is preempted by copyright law. Thus, section 301(d) provides no grounds for Rasmussen's assertion that "[t]he Court of Appeals correctly reconciled the federal aviation statutes and FAA regulations with the Copyright Act." (Opposition at 16.)

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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No. 91-1970

In the Supreme Court of the United States

OCTOBER TERM, 1992

KALITTA FLYING SERVICE, INC., ET AL., PETITIONERS

v.

G.S. RASMUSSEN & ASSOCIATES, INC.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

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QUESTION PRESENTED

Whether a state law action for conversion and unjust enrichment, based on the unauthorized use of a design approval granted by the Federal Aviation Administration to obtain final certification of an aircraft modified in accordance with the approved design, is preempted by the federal system of air safety regulation or by federal patent or copyright law.

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In the Supreme Court of the United States

OCTOBER TERM, 1992

No. 91-1970

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ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

This brief is submitted in response to the Court's invitation to the Solicitor General to express the views of the United States.

STATEMENT

1. The Federal Aviation Act of 1958 directs the Secretary of Transportation to promote the safety and development of air commerce by establishing "minimum standards governing the design, materials, workmanship, construction, and performance of aircraft, aircraft engines, and propellers." 49 U.S.C. App. 1421(a)(1). The Secretary, through the Federal Aviation Administration (FAA), has established a comprehensive set of airworthiness standards governing matters such as flight performance, structural characteristics, design, and construction. See 14 C.F.R. Pt. 23.

The law provides a three-step certification process to ensure compliance with these standards. See generally *United States* v. *S.A. Empresa de Viacao Aerea Rio Grandense (Varig Airlines),* 467 U.S. 797, 804-807 (1984). First, a manufacturer wishing to introduce a new aircraft must obtain a "type certificate" from the FAA. 49 U.S.C. App. 1423(a)(2). The type certificate reflects the FAA's determination that the plane's basic design satisfies the applicable airworthiness standards. 49 U.S.C. App. 1423(a); 14 C.F.R. 21.21. It includes drawings and specifications necessary to define the configuration and design of the plane, and it specifies any operating limitations. 14 C.F.R. 21.31, 21.41. Second, in order to produce planes of an approved design, a manufacturer must obtain a "production certificate." 49 U.S.C. App. 1423(b). A production certificate reflects the FAA's determination that the manufacturing process will adequately ensure that each plane will conform to the approved design. 14 C.F.R. 21.139, 21.143. Finally, before a particular airplane may be placed in service, the owner must obtain from the FAA an "airworthiness certificate" confirming that the airplane conforms to the type certificate and is in condition for safe operation. 49 U.S.C. App. 1423(c); 14 C.F.R. 21.183.

Neither the holder of a type certificate nor the owner of a particular aircraft may modify an approved design without the FAA's further approval. Extensive changes may require the manufacturer or owner to obtain an entirely new type certificate. 14 C.F.R. 21.19. Other changes may be approved through amendment of the type certificate or, where the change is sought by a party other than the holder of the type certificate, by the issuance of a "supplemental type certificate" (STC). 14 C.F.R. 21.111-21.119. The application for an STC must be supported with data demonstrating that the plane, as modified, continues to meet airworthiness standards. 14 C.F.R. 21.115. Data submitted by the applicant, including any drawings, engineering calculations, test results

and the like, are treated by the FAA as confidential and are not made available to the public. See, *e.g.*, FAA Order No. 8110.4, ¶¶ 19-20, *reprinted in* App., *infra*, 1a-5a. The FAA does, however, reserve the right to refer to all such submitted data for whatever purposes it deems appropriate, including comparison to data submitted by other parties in support of applications for approval of similar or identical modifications. *Ibid.* Cf. 14 C.F.R. 21.303(c)(4) (replacement parts manufacturer must show that design meets airworthiness standards or is identical to one covered by a previously approved type certificate).

If the FAA concludes, on the basis of the submitted design and technical data, see 14 C.F.R. 21.115, 21.117, that a proposed modification is acceptable, it will issue an STC for the modification. An STC permits the holder to make the designated modifications on covered aircraft and, provided all other requirements are met, permits the issuance of related production or airworthiness certificates for the modified design. 14 C.F.R. 21.119, 21.183(d)(1).

The FAA informs us that it operates on the assumption that an applicant for an airworthiness certificate based on a previously issued STC will be either the holder of the STC itself or a third party acting under explicit authorization from that holder. Largely for the reasons suggested by the court below, Pet. App. 10a, the FAA has consistently refrained from expending its limited resources in verifying, or even inquiring into, the validity of that assumption in particular cases. Nonetheless, if it becomes aware that an airworthiness applicant has neither its own STC for a particular modification nor authorization from the holder of such an STC, the FAA will generally submit the application (and applicant) to more searching scrutiny.[1] Indeed, such an applicant would

[1] The FAA informs us that it would have undertaken such an enhanced review of petitioner's application for airworthiness certification if it had been aware at the time that petitioner was not

normally be required to obtain its own STC by independently supplying calculations, test results, or other data to substantiate the appropriateness and safety of the modification. See 14 C.F.R. 21.119; 14 C.F.R. 21.47, Pet. App. 43a, 44a (bottom of page) (licensing); FAA Order No. 8110.4, ¶ 20(a) (App., *infra*, 1a-2a).

2. Respondent applied to the FAA for an STC covering modifications that enabled certain DC-8 aircraft to carry cargo loads heavier than those authorized by their original type certificates. After evaluating "volumes of technical data" submitted by respondent based on "hundreds of hours of engineering work," the FAA issued the STC to respondent. Pet. App. 6a. Respondent [2] proceeded to market an "implementation kit" designed to allow owners of DC-8 aircraft to increase their cargo capacity. The kit consisted of three instruments, instructions for their installation, a flight manual supplement describing the modified aircraft's limitations and payload capacities, and a copy of the STC for use in obtaining an airworthiness certificate after the modification. See *id.* at 25a; Br. in Opp. 3-4.

Respondent has conceded for purposes of this case that neither the hardware nor the documents included in the implementation kit could be patented, copyrighted, or protected under state trade secret law. Pet. App. 25a. Respondent nonetheless sold the modification kit based on its STC to aircraft owners, using agreements that

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authorized to apply for such certification under the aegis of respondent's STC. See Pet. App. 9a n.9. As noted, however, the FAA does not normally make any independent inquiry as to authorization. See, *e.g.*, FAA Order 8110.4 ¶ 20(b) and (c)(4) (App., *infra*, 2a-3a, 4a).

[2] Like the court of appeals, Pet. App. 6a n.2, we simplify by ignoring the fact that respondent acted at times through separate entities under common control. Similarly, we follow the style of the petition, Pet. 2, in referring to petitioners Kalitta Flying Service, Inc. and Connie Kalitta Services, Inc. collectively as "petitioner."

stated that the kit was "proprietary information." [3] The buyer typically agreed that it would protect the "trade secrets" embodied in the kit, that it would not use the documentation supplied by respondent (or supply it to third parties) for purposes of developing a similar payload enhancement system, and that it would notify respondent of any subsequent change in ownership of the modified aircraft. *Id.* at 25a-26a & n.1. Respondent also attempted to protect its interests by subcontracting the manufacture of the necessary instruments to a single company. *Id.* at 26a.

Petitioner, an operator of cargo aircraft, bought two DC-8 aircraft already modified under agreements with respondent. Pet. App. 26a-27a & n.3. It also acquired a third, unmodified DC-8. The parties agreed below that operation of the unmodified aircraft as a cargo plane would have been economically infeasible. *Id.* at 21a. When respondent learned that petitioner intended to modify the third aircraft, it offered to sell petitioner its modification kit for $95,000. *Id.* at 27a. Petitioner refused that offer and proceeded to modify the aircraft itself.

Petitioner already possessed aircraft that contained copies of all the necessary drawings and installation instructions, the flight manual supplement, and the STC itself, as well as two of the three instruments needed to effect the modification. It used a parts locating firm to find the third instrument, and had some repair work done by respondent's authorized manufacturer. Using these components and the copied documents from its other planes, petitioner successfully "pirated" the modifications covered by respondent's STC. Pet. App. 27a-28a. The FAA issued an airworthiness certificate for the modified aircraft, after verifying that the modifications conformed

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[3] As respondent points out, Br. in Opp. 10-11 & n.9, there is a recognized and substantial market for previously approved aircraft modifications, including licenses for the related STCs.

to those authorized by respondent's STC, but without inquiring into the source of petitioner's documentation or its legal relationship with respondent. *Id.* at 28a-29a, 26a & n.2.

3. Respondent sued petitioner in federal court on state law theories of conversion and unjust enrichment, basing jurisdiction on diversity of citizenship. Pet. App. 7a & n.5. The district court found that, as respondent conceded, no part of respondent's modification kit was or could be patented, copyrighted, or protected by trade secret law. *Id.* at 25a, 28a-29a. Characterizing the "essence" of respondent's "awkwardly pled" claims as "the protection of an intellectual property right in the STC and the documents and instruments" comprising the implementation kit, the court held that respondent had no such right, and that in any event any "common law intellectual property right claims in the [STC] or the documents and instruments" would be preempted by federal copyright and patent laws. *Id.* at 29a. The court also rejected respondent's claim of an implied private right of action under the Federal Aviation Act or its implementing regulations. *Id.* at 30a-33a.

The court of appeals affirmed the district court's decision with respect to an implied private right of action under federal law, but reversed with respect to the state law claims and federal preemption. Pet. App. 10a-11a, 23a. Applying California law, which it noted "defines property very broadly," *id.* at 11a, the court held that respondent's interest in its STC met the three criteria essential for recognition of a property right in that State. *Id.* at 12a-14a. First, the right was "capable of precise definition: It enabled an airplane owner to obtain an airworthiness certificate for a particular design modification without the delay, burden and expense of [independently] proving to the FAA that a plane so modified will be safe." *Id.* at 13a. Second, the right was "capable of exclusive possession or control" because there were no "conceptual or practical difficulties in restricting the right

to the holder of the STC, or to someone who is a transferee or licensee." *Ibid.* Third, respondent had "established a legitimate claim to exclusivity" with respect to the right recognized by the court because it had "expended considerable time and effort" in designing and gaining FAA approval of the modification covered by the STC, thus demonstrating "the type of reasonable investment-backed expectations that give rise to a legitimate claim of exclusive control over the STC." *Id.* at 13a-14a & n.13.

Having concluded that California law would recognize a property right in the control of the particular FAA approval represented by respondent's STC, the court of appeals then held that a state-law action to vindicate that right was not preempted by federal copyright or patent law, or by the Federal Aviation Act. As to copyright law, the court concluded that respondent's claim challenged "not * * * the actual copying of the documents [involved], but * * * their use as a shortcut in obtaining a valuable government privilege—the right to modify an airplane in a particular way without going to the trouble and expense of proving that the modification meets FAA standards." Pet. App. 15a. Because the state claim was thus "predicated upon an act incorporating elements beyond mere reproduction or the like," *id.* at 15a-16a (quoting *Oddo* v. *Ries*, 743 F.2d 630, 635 (9th Cir. 1984)), the court found that it did "not interfere in any way with the operation of the copyright laws" and hence was not preempted. Pet. App. 16a.

The court acknowledged the broad preemptive sweep of federal patent law, noting that "the instruments required to modify the plane in accordance with the STC, and the entire modification process, must be protected by patent law or not at all." Pet. App. 16a. But the court distinguished, *id.* at 17a, the property right that it had identified in the use of the particular STC granted to respondent from the broader right to use the principles, ideas, or instruments covered by that STC:

> The right involved here, however, is not "patent-like" at all. [Respondent] claims no exclusive right to modify DC-8s as described in [its] STC. [Petitioner] or anyone else may perform the necessary studies and obtain an STC from the FAA—even if the modification so certified is identical to [respondent's]. See *Doyn Aircraft, Inc.* v. *Wylie*, 443 F.2d 579, 580 n.1 (10th Cir. 1971) ("[STCs] do not . . . grant exclusive rights since any number of people can acquire an STC for the same type of modification.").

In the court's view, recognizing respondent's state claim would promote, rather than conflict with, the objectives of federal patent law. First, the state claim would "foster and reward invention" by allowing respondent to "collect the fruits of [its] research." Pet. App. 17a. Second, respondent's modifications would "stimulate further innovation." *Ibid.* Third, the disclosure in the STC itself of the results of respondent's testing and experimentation, combined with the fact that petitioner "need perform only those tests and studies that establish the safety of [respondent's] modification to obtain its own STC," would "ensure free use of ideas in the public domain." *Ibid.* Because it perceived no conflict between enforcement of the state right and the federal patent laws, the court held that enforcement of the state right was not preempted. *Id.* at 17a-18a.

Finally, the court held that enforcing the state property right at issue did not conflict with anything in the federal system of aviation regulation. The court noted initially that neither the Federal Aviation Act nor the regulations implementing it "explicitly preclude recognition of a property right in STCs." Pet. App. 18a. In addition, the court found that enforcement of such a right would complement, rather than conflict with, the statutory and regulatory purpose of promoting air safety, because it would both encourage safety-enhancing innovations and enable the innovators, such as respondent, to

"maintain closer control over the alteration process, and to notify licensees of problems or improvements in the modification." *Id.* at 18a-19a. Noting that the federal regulations at issue themselves "confer exclusive privileges on the holder of an STC, and provide for transfer and licensing," the court found no conflict between state and federal law necessitating federal preemption. *Id.* at 19a-20a.

Having held that California law granted respondent a property right in its STC and that enforcement of that right was not preempted by federal law, the court of appeals ultimately concluded that as a matter of state law petitioner had "tortiously converted [respondent's] STC when it used the STC to obtain airworthiness certification for the modified DC-8." Pet. App. 20a. In addition, it held that on the facts of the case a California court would find an implied contract between the parties on a theory of unjust enrichment. *Id.* at 21a. The court left the precise terms of that contract, questions of damages, and the merits of any contractual claims relating to the other two (previously modified) aircraft acquired by petitioner to be resolved by the district court on remand. *Id.* at 21a-22a.

DISCUSSION

This case involves a particular type of federal regulatory approval that is granted based on data compiled and submitted to the government by the holder. We interpret the decision below as recognizing a narrowly defined state-law property right in the use of that approval to shorten the process of receiving subsequent similar approvals, which nonetheless remain available to any applicant that is willing and able to compile and submit similar or identical data on its own. We take no position on the accuracy of the court of appeals' interpretation of state law.[4] Assuming that such a limited right exists,

[4] Petitioner contends that the court of appeals erred in stating that the parties agreed on the application of California law, see

however, we do not believe that its enforcement would interfere with the administration of current federal law and regulations governing aircraft safety. Moreover, although any broad interpretation or expansion of the court of appeals' decision might well raise significant issues of federal preemption, we think it would be appropriate to await further developments in the lower courts before deciding whether it is necessary for this Court to address those issues. We therefore think that a grant of review in this case would be premature.

1. Petitioner argues, Pet. 5-12, that the court of appeals' decision will allow respondent to prohibit others from "referring to, or submitting a copy of" respondent's STC in connection with their own applications for FAA approvals, prohibit the FAA itself from using data submitted by respondent in evaluating applications by others for approval of similar or identical modifications, and generally "disrupt and interfere with the FAA's regulation of interstate aviation." Pet. 5, 10. We think those contentions overstate the effect of the judgment below.

a. We do not understand the decision below to prohibit an STC applicant from merely "referring to, or submitting a copy of" an STC previously granted for a similar or identical modification. See Pet. 5. The court of appeals did discern a protected interest in "[t]he right to *use* the STC as a basis for obtaining an airworthiness certificate," and stated that although petitioner was free to copy the STC and associated documents, it could be "prevented from then using these copies to obtain an airworthiness certificate." Pet. App. 15a-16a. These references to the "use" of respondent's STC may appropriately be read, however, in the context of the court's "precise definition" of the right that it held was conferred by an STC and could be protected under state law: the right

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Pet. App. 11a, and suggests that Michigan law would have been more appropriate. Pet. 9-10 & n.8. This choice-of-law argument does not appear to have been presented to or considered by the court of appeals, and at any rate does not warrant review by this Court.

"to obtain an airworthiness certificate for a particular design modification *without the delay, burden and expense of proving to the FAA that a plane so modified will be safe.*" *Id.* at 13a (emphasis added).

As explained above (see pp. 3-4, *supra*), an application for airworthiness certification for a modified aircraft is ordinarily subjected to different and more searching review if the FAA is aware that the applicant has not obtained specific authorization from the holder of an STC covering the modification. In fact, such an applicant is normally required to obtain its own STC. Yet the FAA does not use its resources to inquire into the legal relations among aircraft operators and STC holders, see Pet. App. 26a n.2, but generally relies on the representation of authorization implicit in the submission, without further comment, of a copy of another person's STC in connection with an airworthiness application.[5] In this setting, the essence of the right identified by the court of appeals consists of the ability to obtain an airworthiness certificate without enhanced review or the production of independent substantiating data, and it is the implicit misrepresentation by a new applicant that it is acting with the authorization of the holder of an existing STC that the court of appeals has, in effect, held actionable under California law. See *id.* at 20a-21a.

To be sure, ensuring greater disclosure to a federal regulatory agency than the agency itself chooses to enforce is a strange project for a State's common law of

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[5] If, for example, petitioner had supplied the FAA with a copy of an STC purloined from respondents' offices, the FAA might well have granted the requested certification without further inquiry as to authorization. Similarly, if petitioner had applied for its own STC using nonpublic engineering or test data stolen from respondent, the FAA would not normally have inquired into the origins of the submitted information in the course of evaluating its sufficiency in terms of aircraft safety. We note that in either case nothing in the federal regulatory scheme would preempt enforcement of applicable state laws against theft.

property—a project undertaken for the benefit of federal permit holders who are not otherwise entitled to the aid of state law in excluding others from copying or using the data or information on which the STC is based. Certainly a federal agency, including the FAA, could adopt rules or procedures that would obviate or preempt any such state-law right, and certainly such a right that impeded an agency's receipt of relevant information or otherwise interfered with the federal regulatory process would be so preempted. See, *e.g.*, *City of New York* v. *FCC*, 486 U.S. 57, 63-64 (1988); *Arkansas Elec. Coop. Corp.* v. *Arkansas Public Service Comm'n*, 461 U.S. 375, 388-389 (1983). Nonetheless, in the particular circumstances of this case, we do not read the court of appeals' opinion as restricting petitioner or any other applicant from pointing out to the FAA—by citation, inclusion of a photocopy, or otherwise—that its modification is identical to one for which respondent has previously received an STC.[6] Cf. 14 C.F.R. 21.303(c)(4) ("identicality" approval for parts manufacturers); 14 C.F.R. 21.183(d)(1). The FAA therefore does not expect the decision below to interfere with the normal functioning of its safety review and certification process.

b. Petitioner contends, Pet. 5-7, that the decision below conflicts with this Court's decision in *Ruckelshaus* v. *Monsanto Co.*, 467 U.S. 986 (1984). In *Monsanto*, the Court made clear that when a private party submits otherwise proprietary information to a government agency

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[6] Similarly, we would not read the decision as recognizing any right of recovery for respondent based solely on the fact that the FAA might require a lesser showing of safety by a later applicant for an STC substantially identical to one it had previously approved. Cf. Pet. App. 12a n.11 (suggesting possibility of takings claim should there be a change in FAA's confidentiality policies). Any state law burdening the beneficiary of such a decision, made by the FAA within its statutory discretion and with full knowledge of the facts, would interfere impermissibly with the administration of federal law. This case presents no such issue.

under a comprehensive regulatory scheme, it can have no "reasonable investment-backed expectation" that the information will not be used or disclosed in ways consistent with that scheme. *Id.* at 1005-1008. Petitioner argues that the court of appeals "based its holding" on a determination that respondent had such an expectation of "exclusive rights to the data submited to obtain the STC." Pet. 7.

We do not read the court of appeals' opinion as placing any limitation on use by the FAA of data submitted by respondent or other STC applicants. As explained above (see p. 3, *supra*), it is the FAA's policy to use data supplied by prior applicants in evaluating subsequent applications filed by others if such use will help reduce the administrative resources required to ensure compliance with air safety requirements. See, *e.g.*, FAA Order No. 8110.4, ¶¶ 19-20 (App., *infra*, 1a-5a). Data so used are not disclosed to subsequent applicants or to other third parties, however, without explicit permission from the original applicant. *Ibid.* Nothing in the opinion below appears to call these procedures into question, and respondent explicitly disclaims any right to interfere with the FAA's operations or its "existing regulations and practices." Br. in Opp. 6, 11. We therefore agree with respondent that this case presents no conflict with *Monsanto*.

2. Whether the state law right recognized by the court of appeals is preempted by federal patent or copyright law is a closer question. The scope of the court's holding is not entirely clear, and if read broadly the decision might well trench impermissibly on areas reserved exclusively for federal law. Because we think the court's decision can and should be read more narrowly, however, we believe that further review of this case is unnecessary.

a. The sweep of patent preemption is broad and is founded on the principle that "States may not offer patent-like protection to intellectual creations which would otherwise remain unprotected as a matter of federal law."

Bonito Boats, Inc. v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 156 (1989). See also *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225, 231 (1964); *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234, 237-238 (1964). As the court of appeals recognized, however, Pet. App. 17a, the central question is whether the property right that the court found protectable under state law is "patent-like." If that right protects only nonpublic data compiled by respondent to prove the safety of its modification, and not the modification itself, we think the better answer to that question is no.

As petitioner points out, Pet. 13, "the franchise secured by a patent consists only in the right to exclude others from making, using, or vending the thing patented without the permission of the patentee." *United Shoe Machinery Corp.* v. *United States*, 258 U.S. 451, 463 (1922). But the court of appeals made clear that respondent claims, and the court's decision confers, "no exclusive right to modify DC-8s as described in [respondent's] STC. [Petitioner] or anyone else may perform the necessary studies and obtain an STC from the FAA—even if the modification so certified is identical to [respondent's]." Pet. App. 17a.

As we read the decision below, petitioner remains free to obtain from the FAA, in its own name, an identical STC for an identical modification; to submit identical calculations or other data supporting its application, so long as it has developed them independently or derived them from public sources (including the face of respondent's STC); and even to point out to the FAA that the modification it is proposing is identical to one previously approved in respondent's STC. Petitioner is barred only from using or referring to respondent's STC without making clear that it has not been authorized to apply for certification under respondent's authority. Such a rule may deny petitioner the benefit of material nonpublic information submitted by respondent in support of its

own STC application.[7] But that possible burden is quite similar to those imposed by state laws prohibiting the theft of private information, enforcing private contracts relating to otherwise unpatentable inventions, or prohibiting one merchant from passing off its goods as those of another. This Court has made clear that such state laws are generally valid.[8] See *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470, 482-493 (1974); *Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257, 262-266 (1979); *Bonito Boats*, 489 U.S. at 157-158.

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[7] Or it may not, depending on how much additional documentation the FAA chooses to require in a given case in which an applicant points out that its modification is identical to one previously approved.

[8] The "interesting and peculiar" right recognized by the court of appeals, Pet. App. 8a, bears some comparison to state laws regulating deceptive trade dress. In *Bonito Boats*, the Court quoted Judge Hand's summary of the traditional law of unfair competition:

> [T]he plaintiff has the right not to lose his customers through false representations that those wares are his which in fact are not, but he may not monopolize any design or pattern, however trifling. The defendant, on the other hand, may copy plaintiff's goods slavishly down to the minutest detail: but he may not represent himself as the plaintiff in their sale.

489 U.S. at 157 (quoting *Crescent Tool Co.* v. *Kilborn & Bishop Co.*, 247 F. 299, 301 (2d Cir. 1917)). In this case, similarly, the decision below leaves petitioner free to copy respondent's aircraft modification "down to the minutest detail"—but not to represent to the FAA that it is doing so with authorization from respondent. Cf. *Compco*, 376 U.S. at 238 ("A State of course has power to impose liability upon those who, knowing that the public is relying upon an original manufacturer's reputation for quality and integrity, deceive the public by palming off their copies as the original.") Of course, the analogy between "palming off" goods to consumers and failing to disclose to a federal agency information that the agency has not formally required to be disclosed is far from compelling. As noted above (see pp. 11-12, *supra*), although we do not believe further review is warranted in this case, we remain doubtful that the right recognized by the court of appeals has much to do with traditional or appropriate concerns of state law.

b. The court of appeals' delineation, Pet. App. 15a-16a, of respondent's state-law rights with respect to the copying and use of uncopyrighted materials included in respondent's modification "implementation kit," including the STC itself and respondent's flight manual supplement, is less clear and therefore more troubling. We agree with petitioner, Pet. 15, that if state law prohibited petitioner from making "practical or commercial use" of copies of respondent's STC or manual supplement, including doing so by submitting such copies to the FAA in connection with petitioner's application for its own STC, then it would be preempted by federal copyright law.

As explained above (see pp. 10-12, *supra*), however, we think the court of appeals' statement, Pet. App. 16a, that under state law petitioner could be "prevented from * * * using * * * copies [of the STC or manual supplement] to obtain an airworthiness certificate" should be limited by the context of the opinion. The decision as a whole need stand for no more than the proposition that state law may restrain petitioner from using copies of the STC or the manual to pass off its application for an airworthiness certificate as one made under license from respondent. We do not think it should be read as permitting state law to interfere with petitioner's use of copies of uncopyrighted documents in connection with petitioner's own application for an STC, or for any other purpose, so long as petitioner does not claim or imply that use of the STC was authorized by respondent.[9]

Even that narrow construction of the court's decision is not unproblematic. To the extent that the decision would require a user of uncopyrighted materials to ac-

[9] In particular, we would agree that petitioner has a federal right to use respondent's published and uncopyrighted flight manual supplement in connection with its own STC application, and even in "implementation kits" that it might compile and use or market to others once it had obtained its own STC for a modification identical to respondent's.

company those materials with an affirmative disclaimer of authorization or origin, it comes perilously close to prohibiting the mere act of public distribution—one of the rights protected exclusively by federal law. See, *e.g.*, *Computer Associates Int'l, Inc.* v. *Altai, Inc.*, 982 F.2d 693, 716 (2d Cir. 1992). Because of the unusual regulatory regime involved in this case, however, and in light of the court of appeals' reliance on that regime as a material part of its analysis (see, *e.g.*, Pet. App. 9a-10a), this aspect of the court's decision, even if erroneous, is likely to prove of very limited practical importance. We therefore do not think that the decision merits review on this ground.[10]

3. As is evident, our view that the decision below does not warrant review by this Court rests on our interpretation of the decision as a narrow holding applicable in an unusual context. It is possible that further

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[10] Petitioner claims that the decision below conflicts with *Feist Publications, Inc.* v. *Rural Telephone Service Co.*, 111 S. Ct. 1282 (1991), in which this Court held that a telephone directory, although a laborious compilation of factual data, was not sufficiently original to be protected under the copyright laws. As petitioner notes, Pet. 13, the *Feist* court specifically rejected a "sweat of the brow" theory of copyright protection, see 111 S. Ct. at 1291-1295, while the court of appeals relied in part, Pet. App. 14a, on similar considerations of invested effort in determining that California law would recognize a protectable property interest in the use of the design certification that respondent obtained from the FAA. *Feist* rests, however, on "[t]he most fundamental axiom of copyright law": that no one may copyright an idea or a fact. 111 S. Ct. at 1287. That axiom has little relevance to this case, which involves protection not of respondent's idea, data, or information (which petitioner is free to copy), but of its exclusive right to proceed under a particular regulatory approval issued to it and based in large part on nonpublic data that it compiled. As discussed above (see n.8, *supra*), the cases somewhat more analogous to respondent's situation are those allowing States to protect private interests in nonpublic information and to prevent implied misrepresentation as to source. See *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. at 482-493; *Bonito Boats*, 489 U.S. at 157-158.

proceedings in this or other cases will prove that interpretation incorrect. In that event, it may be necessary for this Court to grant review at some later time in order tc prevent interference with preeminent federal interests both in aircraft safety (or another area of federal regulation) and in the protection and limitation of intellectual property rights. We think it more likely, however, that the decision below will be read narrowly and with proper deference to overriding federal concerns.[11] Further review of this case at this time would therefore be premature.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submited.

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[11] Cf. *Miles, Inc.* v. *Scripps Clinic & Research Found.*, 810 F. Supp. 1091, 1094-1098 (S.D. Cal. 1993) (recognizing, under California law test set forth in the decision below, an intangible property interest in the "right to commercialize" a biological "cell line," but refusing to recognize a state law action for conversion of that interest).

APPENDIX

FAA Order No. 8110.4 (as revised through June 1985) reads in pertinent part as follows:

19. *RELEASE OF AND REFERENCE TO TECHNICAL DATA.*

    a. The general policy regarding information disclosure is covered in OA P 1200.2.[1]

    b. Reference to manufacturer's and certificate holder's data files by FAA engineering personnel is permissible and is not considered as infringing on the proprietary rights of the owner as long as the information is used solely by FAA engineering personnel to minimize the time and effort required for evaluation and is not disclosed to third parties who have not obtained permission from the original applicant.

20. *PROCEDURES.* The following are typical examples involving the release or other use of applicant's data.

    a. *New Type Certificate or Supplemental Type Certificate.* In order to establish compliance with the airworthiness requirements, an ap-

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[1] FAA Handbook OA P 1200.2, Release of Information by FAA Employees, was cancelled by a new Handbook 1200.2 issued in April 1969 to implement Department of Transportation regulations under the Freedom of Information Act. The current Department regulations implementing the FOIA are codified at 14 C.F.R. Pt. 310. See *id.* at 310.3, App. B, ¶ 4 ("matter submitted in confidence * * * will be held confidence to the extent deemed allowable").

plicant for a complete new type certificate or a supplemental type certificate may wish to make use of data submitted by a previous applicant or holder of a type certificate. In such cases, the later applicant will be advised to obtain and submit to FAA the written consent of the earlier applicant. If the later applicant does not obtain such consent, he will either:

(1) Be limited to a supplemental type certificate covering only the design changes which he substantiates himself, or

(2) Be required to submit complete type design data and conduct all tests required by the applicable requirements; however, in this case, the FAA may reduce its own participation in the project to the minimum necessary to substantiate compliance with the airworthiness requirements. For example, instead of making a complete evaluation, the FAA may make spot-check comparisons of the later applicant's data with the first applicant's data.

b. *Altered Aircraft, Aircraft Engine, or Propeller.* Alterations to aircraft may be approved on the basis of conformity to the supplemental type certificate data. To show conformity, the applicant for approval of the individual aircraft should have available copies of the approved installation drawings, and instructions. However, the FAA representative making the approval is not respon-

sible for determining how the applicant obtained this information.

c. *Replacement and Modification Parts.*

(1) The design data as defined by Federal Aviation Regulations, Section 21.31, submitted to the FAA to substantiate airworthiness for the certification of a product is part of the type certificate. This data should be retained in files of the FAA but may be retained by the type certificate holder providing he agrees to maintain it in the currently approved status and make it available to FAA at all times without restriction.

(2) Type design data submitted to FAA for approval shall not be disclosed without the written consent of the owner or as permitted by the provisions of Section 3 of the Administrative Procedure Act, as revised effective July 4, 1967, and Sections 902(b) and 1104 of the Federal Aviation Act of 1958.

(3) Any person may apply for design approval for modification or replacement parts for use in a certificated product. The FAA responsibility, in such cases, is to determine that the modification or replacement parts conform to the approved type design or to the applicable standards. The use of the approved type design data solely by the FAA for determining conformity of design data submitted by any applicant is not con-

sidered to be public disclosure of information.

(4) The FAA will not question the source or method by which an applicant, for a modification or replacement part approval, obtains his design information.

(5) A modification or replacement part approval may be granted when the applicant demonstrates that the modification or replacement part is identical to that of the approved type design.

(6) When the applicant does not show identicality with the approved type design, for parts other than those covered by Section 21.303(b) of the FAR or when, in the opinion of FAA, identicality of design does not substantiate an equivalent level of safety, there can be no approval based on comparison of data. In such instances, no disclosure shall be made of the nonconformity nor of any aspects of the approved type design data. The applicant will be informed that his design data does not comply with the approved type design and that he may substantiate his design by tests or other means of substantiation as provided in FAR, Section 21.305, if he wishes to pursue his request for design approval.

(7) Each region granting FAA-Parts Manufacturer Approval (PMA) fabrication system approval should maintain a sum-

mary of all replacement parts approved within the region for use on all type certificated products under the FAA-PMA system. Information on the name and address of the PMA holder, the part number of PMA part(s), and the type certificated product(s) in which part(s) is approved should be supplied to the public upon request. In the interest of minimizing the expenditure of FAA manpower, interested parties may be referred to the other regional offices and the PMA holders when the desired information is not available in the region receiving the request.

d. *Release of Data when a Type Certificate is Cancelled or the Holder of a Type Certificate Goes Out of Business Without Transferring it.* The data pertaining to such certificates may be made available to any person who appears to have legitimate need of the information to properly maintain aircraft of the type involved. However, if manufacturing is involved, the case should be referred in accordance with Handbook 1200.2A, Public Availability of Information.

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No. 91-1970

IN THE

Supreme Court of the United States

OCTOBER TERM 1992

KALITTA FLYING SERVICE, INC.,
CONNIE KALITTA SERVICES, INC.,
Petitioners,

v.

G.S. RASMUSSEN & ASSOCIATES, INC.,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

SUPPLEMENTAL BRIEF IN SUPPORT OF THE PETITION FOR A WRIT OF CERTIORARI

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SUPPLEMENTAL BRIEF IN SUPPORT OF THE PETITION FOR A WRIT OF CERTIORARI

Petitioners Kalitta Flying Service, Inc. and Connie Kalitta Services, Inc. (hereinafter, collectively "Kalitta")[1] hereby submit their Supplemental Brief in Support of The Petition For A Writ Of Certiorari. This Supplemental Brief addresses the copyright preemption issue discussed in the Brief For The United States As Amicus Curiae.

DISCUSSION

Kalitta agrees with the United States that "any broad interpretation or expansion of the court of appeals' decision might

[1] As indicated in the Petition, (Pet. at 1 n.1), in accordance with Supreme Court Rule No. 29.1, there are no parent companies or subsidiaries of either corporate petitioner.

well raise significant issues of federal preemption . . . ." (Brief For the United States As Amicus Curiae at 10, hereinafter "Amicus Brief.") Kalitta, however, does not agree with the United States that it is possible to interpret the Court of Appeals' holding narrowly so as to avoid improper interference with the federal copyright scheme. Moreover, Kalitta believes that other courts will not construe the holding narrowly, and that to maintain otherwise is mere wishful thinking, as a recent decision by the United States Court of Appeals for the Eighth Circuit confirms.

The Court of Appeals for the Ninth Circuit's holding below improperly separates the right to "copy" from the right to "use" uncopyrighted matter in the public domain and therefore renders the federal copyright scheme a nullity. (Pet. at 15.) By prohibiting Kalitta from making the only practical use of copies of the STC and flight manual supplement, the Court of Appeals has allowed Rasmussen to interfere with the right to copy materials in the public domain. (*Id.*)

The United States agrees that a state law prohibiting Kalitta from making "practical or commercial use" of copies of the STC or flight manual supplement would be preempted under federal copyright law. (Amicus Brief at 16.) The United States attempts to construe the Court of Appeals' decision narrowly, however, by asserting that "as a whole [it] need stand for no more than the proposition that state law may restrain petitioner from using copies of the STC or the manual to pass off its application for an airworthiness certificate as one made under license from respondent." (*Id.*)

This interpretation is based upon a misunderstanding of the facts of this case and is clearly not supportable. Nothing in the record suggests that Kalitta was required to obtain Rasmussen's authorization to use the STC in its application to the FAA for an airworthiness certificate. Kalitta was not contractually bound to compensate Rasmussen for use of the STC under the relevant

licensing agreements, (Pet. App. 27a), and the FAA's regulations and Orders did not require Kalitta to obtain the prior consent of Rasmussen.[2] (*See* Amicus Brief App. 1a-5a.) Moreover, neither the District Court nor the Court of Appeals relied on any theory of misrepresentation or lack of authorization in resolving the copyright preemption issue.[3]

Nonetheless, the United States maintains that review by this Court at this time would be premature because, in its view,

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[2] Although the United States asserts that the FAA has informed it that the FAA will submit an airworthiness application (and applicant) to more searching scrutiny if it becomes aware that the applicant does not have authorization from the holder of the STC, (Amicus Brief at 3, 11, 14, 15 n.8, 16), neither the FAA's regulations nor Orders require this result. FAA Order No. 8110.4, attached to the Amicus Brief, does not require an applicant for an airworthiness certificate to obtain the consent of the earlier applicant. Section 20.a of that Order is not applicable to the facts of this case but applies only to applicants for a "complete new ... supplemental type certificate...." (*Id.* App. 1a-2a.) Indeed, section 20.b, which applies to approval of an individual aircraft modification, and which is applicable here, simply requires the applicant to "have available copies of the approved installation drawings, and instructions." (*Id.* App. 2a.) In addition, the United States acknowledges that the FAA has not "formally required" any representation that an airworthiness applicant be licensed to use an STC, (*see id.* at 15 n.8.), and section 20.b itself provides that the FAA does not determine "how the applicant obtained this information." (*Id.* App. 2a-3a.) Thus, Kalitta clearly was in compliance with applicable FAA regulations and Orders in this case.

[3] After setting forth its narrow interpretation of the Court of Appeals' holding, the United States itself points out the weaknesses of that interpretation:

> Even [this] narrow construction of the court's decision is not unproblematic. To the extent that the decision would require a user of uncopyrighted materials to accompany those materials with an affirmative disclaimer of authorization or origin, it comes perilously close to prohibiting the mere act of public distribution — one of the rights protected exclusively by federal law.

(Amicus Brief at 16-17.)

the lower decision is likely to "be read narrowly and with proper deference to overriding federal concerns." (Amicus Brief at 18.) This belief, however, has already proven incorrect. In *National Car Rental System, Inc. v. Computer Assocs. Int'l, Inc.*, 61 USLW 2615 (8th Cir. 1993), the United States Court of Appeals for the Eighth Circuit, in reaching its holding, cited the Court of Appeals' decision below, and quoted the following language from that decision, without limitation:

> Federal copyright law governs only *copying* .... Enforcement of Rasmussen's property right in his STC leaves Kalitta free to make as many copies of the certificate as it wishes; to the extent the manual supplement is not protected by the copyright laws, the same is true of it. That Kalitta is prevented from then *using* these copies to obtain an airworthiness certificate from the FAA does not interfere in any way with the operation of the copyright laws.

(App. 11a.) (emphasis added).

Thus, the United States Court of Appeals for the Eighth Circuit did not adopt the narrow interpretation offered by the United States, but rather, acknowledged the full breadth of the Court of Appeals' holding below.[4]

The United States has expressly recognized that if its narrow interpretation of the Court of Appeals' holding proves incorrect, review by this Court may be necessary "at some later time in order to prevent interference with preeminent federal interests . . . in the protection and limitation of intellectual property rights." (Amicus Brief at 18.) Since the United States' narrow interpretation of the Court of Appeals' holding cannot be supported by the facts of this case, and since a sister Circuit

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[4] The United States Court of Appeals for the Eighth Circuit also cited *Computer Assocs. v. State St. Bank & Trust*, 789 F.Supp. 469 (D. Mass. 1992) in support of its holding. (*See* App. 10a-12a.)

has already recognized the full breadth of that holding, Kalitta respectfully submits that review at this time is warranted in order to avoid further unnecessary encroachment by state law on the federal copyright scheme.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

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APPENDIX

61 USLW 2615

NATIONAL CAR RENTAL SYSTEM, INC.,
Appellee,
v.
COMPUTER ASSOCIATES INTERNATIONAL, INC.,
Appellant.
No. 92-1683.
United States Court of Appeals,
Eighth Circuit.
Submitted Dec. 17, 1992.
Decided April 6, 1993.

Licensee of computer programs brought declaratory judgment action, and licensor filed counterclaim for breach of contract. The United States District Court for the District of Minnesota, Donald D. Alsop, J., granted licensees motion for judgment on the pleading on the counterclaim, and licensor appealed. The Court of Appeals, Magill, Circuit Judge, held that: (1) counterclaim did not allege that licensee had distributed copies but, rather, only that licensee had put computer program to unauthorized use, and (2) breach of contract claim was not preempted by Copyright Act.

Reversed and remanded.

Allen W. Hinderaker, Minneapolis, MN, argued (Bruce H. Little and Polly A. Maier on the brief), for appellant.

Peter J. Frazza, Short Hills, NJ, argued (Donald P. Jacobs and Vincent J. Proto, on the brief), for appellee.

Before MAGILL, Circuit Judge, HEANEY, Senior Circuit Judge, and BEAM, Circuit Judge.

MAGILL, Circuit Judge.

***1** We here deal with the difficult question of the extent to which the Copyright Act preempts state breach of contract actions alleging that the licensee of computer software exceeded

limitations on the use of computer software contained in the license agreements. Computer Associates International, Inc., appeals from the district court's order resolving a motion for judgment on the pleadings and dismissing its breach of contract claim against National Car Rental as preempted under the Copyright Act. We conclude that the district court failed to grant Computer Associates all reasonable inferences from its pleadings, and hold that as properly construed, the cause of action as pled is not preempted. We reverse.

I. BACKGROUND

Computer Associates International, Inc. (CA), creates and licenses computer software. CA licensed its programs to the appellee, National Car Rental Systems, Inc. (National), to process National's data on National's hardware in Bloomington, Minnesota. The 1990 license agreement between CA and National provided, as did earlier licenses, that National may use the licensed programs "only for the internal operations of Licensee and for the processing of its own data." A separate order form, incorporated into the license agreement, similarly provided that "use of the Licensed Program[s] is restricted to the internal operations of Licensee and for the processing of its own data."

Sometime in 1990, National decided to cease its internal computer operations and contract with an independent computer services vendor for computer related information services. Ultimately, National retained Electronic Data Systems Corporation (EDS) to provide these services. In connection with this transaction, National, EDS, and CA entered into a supplement addendum, which provided that EDS could use the licensed programs to process National's data. The supplement addendum provided that EDS would use the programs for the benefit of National subject to the terms and conditions of the 1990 license agreement, and solely "to process data of Licensee and in no event for the processing of data ... of any third party other than Licensee."

CA subsequently determined that National had been using the programs to process the data of third parties, including Lend Lease Trucks, Inc. (Lend Lease), and Tilden Car Rental, Inc. (Tilden), in violation of the license agreement, and that such use had continued through EDS under the supplement addendum. CA threatened to sue National if such use did not stop. National then brought a declaratory judgment action in the district court. National admitted in its complaint that it "has used the Licensed Software in its business activities ... including the activities relating to Tilden and Trucks [Lend Lease]," but requested a declaration that its use of the programs neither breached the license agreement nor infringed CA's copyright. CA asserted two counterclaims. In the first, it claimed that National's use of the programs, either individually or through EDS, for the benefit of Lend Lease and Tilden, breached the license agreement. In the second, CA claimed that National infringed its copyright by making an unauthorized copy of the software.

*2 National moved for judgment on the pleadings under Rule 12(c), alleging that CA's first counterclaim was preempted under § 301(a) of the Copyright Act. In resolving the motion, the district court concluded that CA alleged a lease agreement between National and the third parties: National permitted them to use the software in exchange for payment. The district court concluded that this cause of action, as pled, was "equivalent" to the exclusive copyright right of distribution of copies of the work, and held it was preempted.

II. DISCUSSION

A. Standard of Review

We review a motion for judgment on the pleadings de novo. *Westcott v. City of Omaha*, 901 F.2d 1486, 1488 (8th Cir.1990). The standard is strict: judgment on the pleadings is not appropriate unless the moving party has "clearly establishe[d] that no material issue of fact remains to be resolved and he is entitled to judgment as a matter of law." *Iowa Beef Processors, Inc. v.*

Amalgamated Meat Cutters, 627 F.2d 853, 855 (8th Cir.1980). This court must accept as true all facts pled by the non-moving party, and grant all reasonable inferences from the pleadings in the non-moving party's favor. *Id.* Thus, we must determine whether CA's first counterclaim, as pled, may reasonably be read only as a claim preempted by the Copyright Act.

[1][2] The Copyright Act provides the exclusive source of protection for "all legal and equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106" of the Copyright Act. *See* 17 U.S.C. § 301(a). Concomitantly, all non-equivalent rights are not preempted. A state cause of action is preempted if: (1) the work at issue is within the subject matter of copyright as defined in §§ 102 and 103 of the Copyright Act, and (2) the state law created right is equivalent to any of the exclusive rights within the general scope of copyright as specified in § 106. [FN1] *Harper & Row, Publishers, Inc. v. Nation Enters.*, 723 F.2d 195, 200 (2d Cir.1983).

We cannot tell from the district court's memorandum opinion whether the district court concluded the cause of action was preempted because the district court believed CA had alleged National actually distributed a copy of the program to Lend Lease and Tilden, or whether the district court concluded that the allegation of use by National for Lend Lease's and Tilden's benefit was preempted even absent an actual distribution. Therefore, we first examine CA's pleadings to determine whether the district court gave it the benefit of all reasonable inferences from the pleadings. On this standard, we determine that CA's pleadings cannot be read to allege that National actually distributed a copy of the program to Lend Lease or Tilden. Instead, CA's pleadings must be read to allege that National breached their contract by using the program itself, or through EDS, to process data for Lend Lease and Tilden. We

then examine whether so construed, the cause of action is preempted.

B. Characterization of CA's Pleadings

*3 Because the question here depends upon the proper interpretation of CA's first counterclaim, we set it out in some detail. In the first counterclaim, CA alleged, in pertinent part, that: The authorization for use granted National [pursuant to the 1990 License Agreement] was for the internal operations of National and for the processing of its own data. (First Counterclaim, P 31) Pursuant to the Supplement Addendum ... it was agreed that the Licensed Programs would be used solely for the benefit of National and subject to the rights, obligations and benefits in all respects of the terms and conditions of the License Agreement. (First Counterclaim, P 32) Pursuant to the Supplement Addendum ... National and EDS further agreed, among other things, to use the Licensed Programs ... solely to process data of National and in no event for the processing of data of any third party other than National. (First Counterclaim, P 33) ... In none of the License Agreements was [National] granted any authorization to use the licensed programs for the benefit of any company other than itself. (First Counterclaim, P 35)... National has used and permitted the use of the Licensed Programs for the processing of data for the benefit of third parties. This use of the Licensed Programs for the benefit of third parties includes the use for Lend Lease Trucks, Inc. and Tilden Car Rental, Inc. (First Counterclaim, P 36) ... National has been unjustly enriched by any fees or other compensation received from those third-parties for use of the Licensed Programs for their benefit. (First Counterclaim, P 37)

The district court noted that the computer software in question was within the subject matter of copyright, and thus focused on whether CA's breach of contract action sought to protect rights equivalent to the exclusive copyright rights. The court noted that National had not alleged which copyright right

was equivalent to CA's action, but concluded that the distribution right was the only right potentially equivalent.

In resolving the preemption issue, the court concluded that "[c]onstrued as true, CA's allegations reflect the existence of a lease arrangement between National and Lend Lease and Tilden: National has permitted Lend Lease and Tilden to use the licensed software in exchange for payment. The distribution right includes specifically the right to lease or lend." *Mem. op.* at 9-10. The court further concluded that the presence of a contract promise did not create a right qualitatively different from copyright, and stated: "In essence, CA alleges National breached the license agreement by infringing CA's copyrights in the licensed software." *Id.* at 10.

We believe that in reaching this conclusion, the district court either failed to give CA the benefit of all reasonable inferences from the pleadings or misinterpreted the law of copyright preemption. We first assume that the district court concluded an actual distribution had occurred.

***4** [3][4] Given our standard of review, we do not believe that CA's complaint may be read to allege that National actually distributed the program. The copyright holder's distribution right is the right to distribute copies. See 17 U.S.C. § 106(3). Section 106(3) grants the copyright owner the "exclusive right publicly to sell, give away, rent or lend any material embodiment of his work." 2 Nimmer on Copyright § 8.11[A], at 8-123 (emphasis added). An examination of CA's pleadings demonstrates that they cannot reasonably be read to complain about wrongful distribution. First, the contract provisions CA alleges are at issue place limits upon the way those in rightful possession of a copy of the program can use that copy. The provisions do not prohibit National or EDS from giving a copy of the program to anyone else. Second, CA does not specifically allege that National gave a copy of the program to Lend Lease or Tilden. CA alleges that "National has used and permitted the

use of the Licensed Programs for the processing of data for the benefit of third parties." CA did not allege use by Lend Lease and Tilden, but instead alleged use for their benefit. [FN2]

The only potential allegation of unauthorized distribution comes in CA's contention that National "permitted the use" of the programs. Because we must give CA the benefit of all reasonable inferences from the pleadings, we cannot conclude that an allegation that National "permitted the use" necessarily amounts to an allegation of the actual distribution of a copy of the program. Rather, we believe that such a pleading can be read, in context, to allege that National permitted EDS to use the programs for the benefit of Lend Lease and Tilden, with no copies ever going to Lend Lease and Tilden. EDS, however, was authorized under the supplement addendum to have a copy of the program. Thus, given our standard of review, we cannot read CA's pleadings to allege that National breached the contract by wrongfully distributing a copy of the program.

[5] The district court's conclusion that the pleadings alleged a lease agreement does not change our conclusion. The exclusive right to lease a copyrighted work is derivative of the right to distribute, which, as we noted, is the right to distribute copies. *See* 17 U.S.C. § 106; Nimmer, supra, at § 8.11[A]. Allegations of a lease agreement thus cannot expand that distribution right; the right to lease must be the right to lease a copy. Because the pleadings cannot properly be read to allege distribution of a copy, neither can they be read to allege a lease of a copy.

We thus conclude that CA's pleadings cannot be read to allege that National breached its contract by actually distributing a copy of the licensed program to either Lend Lease or Tilden.

C. Preemption of the Contractual Limitation on Use

[6] The question then becomes whether CA's allegation that National breached their contract by using the program in a fashion not allowed under the contract protects a right equivalent to one of the exclusive copyright rights. We believe it does not.

***5** We agree with the district court that the computer program in question is within the subject matter of copyright. Thus we focus on the second preemption issue: whether the right sought under state law is equivalent to the exclusive rights under copyright. We must consider whether a limitation on the uses to which a licensee may put a licensed work are preempted even though those uses do not involve the exclusive copyright rights. As noted above, courts and commentators have framed this inquiry as whether the right in question is "infringed by the mere act of reproduction, performance, distribution or display." 1 Nimmer on Copyright § 1.01[B], at 1-13. Section 301 preempts only those state law rights that "may be abridged by an act which, in and of itself, would infringe one of the exclusive rights' provided by federal copyright law." *Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 982 F.2d 693, 716 (2d Cir.1992) (*citing Harper & Row, Publishers, Inc. v. Nation Enters.*, 723 F.2d 195, 200 (2d Cir.1983), *rev'd on other grounds*, 471 U.S. 539, 105 S.Ct. 2218, 85 L.Ed.2d 588 (1985)). If an extra element is "required, instead of or in addition to the acts of reproduction, performance, distribution or display, in order to constitute a state-created cause of action, then the right does not lie 'within the general scope of copyright' and there is no preemption." 1 Nimmer on Copyright § 1.01[B], at 1-14-15 (footnotes omitted); see also *Harper & Row*, 723 F.2d at 200 (where state law right is predicated upon an act incorporating elements beyond mere reproduction or the like, the [federal and state rights] are not equivalent and there is no preemption).

We conclude that the alleged contractual restriction on National's use of the licensed programs constitutes an extra

element in addition to the copyright rights making this cause of action qualitatively different from an action for copyright.

National initially contends that any complaint alleging use of a copyrighted work that exceeds the uses allowable under the license must be brought as a copyright infringement claim; contract claims containing such allegations are preempted. In support of this proposition, National cites several cases finding copyright infringement when the licensee's "use" of a copyrighted and licensed work exceeded the uses allowed under the license. *See S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1087 (9th Cir.1989); *Cohen v. Paramount Pictures Corp.*, 845 F.2d 851, 853 (9th Cir.1988); *Gilliam v. American Broadcasting Cos.*, Inc., 538 F.2d 14, 20 (2d Cir.1976); *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 772 F.2d 505, 512 (9th Cir.1985); *Wolff v. Institute of Elec. & Elecs. Eng'rs, Inc.*, 768 F.Supp. 66, 69 (S.D.N.Y.1991); *National Bank of Commerce v. Shaklee Corp.*, 503 F.Supp. 533, 544 (W.D.Tex.1980).

We believe that National reads these cases too broadly. First, only one of these cases involved preemption. *See Wolff*, 768 F.2d at 69. In *Wolff*, the plaintiff alleged that the defendant had both infringed his copyright and breached their contract by republishing a photograph licensed for only one publication. The court held that the breach of contract cause of action was preempted because, as the court construed it, the plaintiff merely alleged that the defendant breached their contract by infringing his copyright. *Wolff*, 768 F.Supp. at 69. None of the other cases involved preemption; however, in each, the conduct claimed as infringing involved one of the exclusive copyright rights. *See S.O.S.*, 886 F.2d at 1087 (licensee made a copy of the program and prepared a modified version without authorization); *Cohen*, 845 F.2d at 852 (company with a right to record musical composition for film and display film on television also sold and rented videocassettes to general public); *Gilliam*, 538 F.2d at 18 (defendant televised edited version of program without

authorization); *Frank Music*, 772 F.2d at 512 (defendant staged musical revue in manner not allowed under the license); *Shaklee*, 503 F.Supp. at 544 (defendant inserted unauthorized advertising material into published work). Rather than stating a rule that any use exceeding the license is infringing, these cases establish that engaging in one of the acts reserved to the copyright holder under § 106, without a license to do so, is infringing. Moreover, the *Wolff* case stands at most for the proposition that a breach of contract claim alleging nothing more than an act of infringement is preempted. Given that we cannot read CA to allege that National engaged in one of the acts reserved to CA under § 106, these cases are inapposite.

***6** Because we find no general rule holding breach of contract actions such as this one preempted, we examine specifically whether this cause of action seeks to protect rights equivalent to the exclusive copyright rights. We conclude that the contractual restriction on use of the programs constitutes an additional element making this cause of action not equivalent to a copyright action.

National disagrees with this characterization and attempts to read the term "use" in the license agreement as synonymous with the rights given to the copyright holder. We believe it is not, as two recent cases make clear.

In a case very similar to this one, involving CA, the court held that a contractual restriction on use of a computer program was distinct from the exclusive copyright rights. In *Computer Assocs. v. State St. Bank & Trust*, 789 F.Supp. 470 (D.Mass.1992), the parties had executed a license that provided, *inter alia*: "Customer agrees to refrain from using the Equipment ... for other customer-sites or customers on a service basis." *Id.* at 475. CA argued that State Street violated the provisions of the license agreement by allowing customers direct access to the programs to gain information. Because of that alleged breach, Computer Associates claimed that it could cancel their main-

tenance contract. State Street moved for a preliminary injunction prohibiting CA from cancelling the maintenance contract. CA then claimed that the violation of the agreements constituted copyright infringement, preventing State Street from claiming irreparable harm. In denying this claim, the court stated: infringement results only from the unauthorized copying of copyrighted material. A use of an authorized copy of copyrighted subject matter ordinarily is not infringing.... Therefore, applicable limitations on State Street's use of the programs, if any, must be derived initially from the license agreements, not copyright law. *Id.* at 472.

The Ninth Circuit reached a similar conclusion in *G.S. Rasmussen & Assocs. v. Kalitta Flying Serv.*, 958 F.2d 896 (9th Cir. 1992). In Kalitta, the plaintiff had received from the FAA a certificate (STC) allowing him to modify a plane design. [FN3] The defendant took the certificate from an existing, modified plane and used it to modify another plane, without paying the plaintiff for doing so. Plaintiff sued for unfair competition, and the defendant raised the defense of copyright preemption. The court first noted that there was no allegation of copying. It went on to hold that: Federal copyright law governs only copying.... Enforcement of Rasmussen's property right in his STC leaves Kalitta free to make as many copies of the certificate as it wishes; to the extent the manual supplement is not protected by the copyright laws, the same is true of it. That Kalitta is prevented from then using these copies to obtain an airworthiness certificate from the FAA does not interfere in any way with the operation of the copyright laws. *7 *Id.* at 904.

In both of these cases, the courts distinguished restrictions on use of a copyrightable work that did not involve "copying" from the exclusive rights in copyright. CA's situation is the same. CA does not claim that National is doing something that the copyright laws reserve exclusively to the copyright holder, or that the use restriction is breached "by the mere act of

reproduction, performance, distribution or display." Instead, on this posture, CA must be read to claim that National's or EDS's processing of data for third parties is the prohibited act. None of the exclusive copyright rights grant CA that right of their own force. Absent the parties' agreement, this restriction would not exist. Thus, CA is alleging that the contract creates a right not existing under the copyright law, a right based upon National's promise, and that it is suing to protect that contractual right. The contractual restriction on use of the programs constitutes an extra element that makes this cause of action qualitatively different from one for copyright.

We believe that the legislative history of the Copyright Act supports this conclusion. In elaborating the meaning of the term "equivalent rights" the House committee report to the Copyright Act suggests that breaches of contract were not generally preempted: "nothing in the bill derogates from the rights of parties to contract with each other and to sue for breaches of contract." *See* H.R.Rep. No. 94-1476, 94th Cong., 2d Sess. 132, *reprinted in* 1976 U.S.C.C.A.N. 5659, 5748. This is not the end of the inquiry, however.

National contends that while the bill as initially drafted might have excluded breaches of contract from preemption, the bill as passed did not. National notes that § 301(b)(3) [FN4] of the Copyright Act, as initially drafted and reported out of committee in the House, explicitly exempted breach of contract suits from preemption. This provision was then amended on the floor of the House to delete all the specific examples of non-preempted causes of action. National claims this action demonstrated congressional intent to remove the "safe harbor" from preemption for breach of contract actions. *See, e.g., Wolff v. Institute of Elec. & Elecs. Eng'rs, Inc.*, 768 F.Supp. 66 (S.D.N.Y.1991) (deletion of safe harbor provision for breaches of contracts suggests that Congress did not intend generally to except them from preemption).

We disagree. Although the deletion of a provision from a final bill generally means that Congress intends to disavow what was formerly expressed, we believe in this case the facts surrounding the deletion of § 301(b)(3) suggest Congress did not intend to reverse the presumption of non-preemption for the examples initially included in § 301(b)(3). Instead, it appears that certain members of the House were concerned about the subsequent addition of the tort of misappropriation to the list of non-preempted causes of action, and suggested deletion of the specific examples in order to prevent confusion about the scope of preemption. [FN5] We agree with Professor Nimmer that "[i]t seems clear that the amendment that caused such deletion was not intended substantively to alter Section 301(b)(3) as regards [those examples originally included]." 1 Nimmer on Copyright § 1.10[B], at 1-22; *See also Mayer v. Josiah Wedgwood & Sons, Ltd.*, 601 F.Supp. 1523, 1533 (S.D.N.Y.1985) (same); *Factors, Etc., Inc. v. Pro Arts, Inc.*, 496 F.Supp. 1090 (S.D.N.Y.1980) (same). Thus, we believe, the better view is that the legislative history suggests a congressional intent not to preempt breach of contract actions such as this one. [FN6]

*8 National contends, however, that such a conclusion fails to recognize the nature and value of computer software. According to National, computer software has value because it performs a function. National thus claims an allegation that it used the program for another is in fact an allegation that it distributed the "functionality" of the program. This argument fails. First, National cites to no authority in support of this position. Second, even with respect to computer software, the distribution right is only the right to distribute copies of the work. As Professor Nimmer has stated, "[i]nfringement of [the distribution right] requires an actual dissemination of either copies or phonorecords." 2 Nimmer on Copyright § 8.11[A], at 8-124.1. Finally, courts have specifically held that copyright protection in computer software does not extend to the software's function. *See, e.g., Computer Assocs. Int'l, Inc. v.*

Altai, Inc., 982 F.2d 693, 704 (2d Cir.1992). Thus, even if CA could be said to have alleged that National "distributed the functionality" of its program, such a claim would not protect a right equivalent to one of the exclusive rights in copyright.

Finally, National claims that CA's requested relief demonstrates its cause of action is equivalent to the exclusive rights under copyright. First, National notes that CA requested damages for unjust enrichment, damages National claims are preempted under § 301. National is correct in noting that certain courts have held claims for unjust enrichment preempted when based upon allegations that the defendant engaged in one of the acts reserved to the copyright holder under § 106. We do not read CA to allege that National was unjustly enriched as a result of a wrongful exercise of one of the § 106 rights. Rather, we read this allegation of damage as a further explanation of the damages CA intends to prove arising from the breach of contract. CA alleges generally that it has been damaged in an amount to be proved at trial, and it will have to prove those damages. In this context, we read its allegations of unjust enrichment as an attempt, albeit inartful, to allege that National received from Lend Lease and Tilden amounts that CA would have received had National not breached their contract. Second, National notes that CA requested return or destruction of any copies of its programs still in National's possession. It notes that the Copyright Act provides precisely that remedy, see 17 U.S.C. § 504, and claims that the request for destruction shows the claim is equivalent to a copyright claim. We disagree. The parties' contract specifically provides for the return or destruction of the licensed programs upon any breach of the license agreement. [FN7] This remedy would apply equally to this asserted breach (improper use) as to an action for breach of an agreement to pay royalties or license fees, which National admits would not be preempted. Furthermore, the copyright remedy of return or destruction applies even absent a preexisting relationship between the parties: it does not have to be stated in

a contract or license agreement. We cannot conclude that this action is preempted simply because the parties' contract provides a remedy for breach identical to a remedy provided in copyright.

III. CONCLUSION

*9 For all the foregoing reasons, we conclude that CA's cause of action, as pled, is not preempted by the Copyright Act. Therefore, we reverse the order of the district court dismissing CA's first counterclaim with prejudice and remand for further proceedings consistent with this opinion.

FN1. The Copyright Act, 17 U.S.C. § 106, states as follows: Subject to sections 107 through 118, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following: (1) to reproduce the copyrighted work in copies or phonorecords; (2) to prepare derivative works based upon the copyrighted work; (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending; (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; and (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly.

FN2. CA moved for reconsideration of the initial decision on the pleadings. In the papers surrounding that motion, National admitted that it never gave a copy of the program to Lend Lease or Tilden, but rather processed data for those companies on its

equipment. We have, however, decided to evaluate in this appeal the soundness of the initial decision to grant judgment on the pleadings. Because we hold that judgment on the pleadings was improperly granted, we do not consider the district court's disposition of the motion for reconsideration.

FN3. The FCC requires that all planes be of approved design. As a shortcut to examining every plane, the FCC approves a design for a class of planes. This requires significant testing. The FCC also approves modifications to existing approved design by issuing a certificate demonstrating that the modification is safe. Then, for any particular modified plane, a company can prove conformance by demonstrating that they have such a certificate and the design conforms to it.

FN4. Section 301(b)(3) initially provided that: (b) Nothing in this title annuls or limits any rights or remedies under the common law or statutes of any State with respect to —

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(3) activities violating rights which are not equivalent to any of the exclusive rights within the general scope of copyright as specified by Section 106, including breaches of contract, breaches of trust, invasion of privacy, defamation, and deceptive trade practices such as passing off and false representation. Sec. 301(b)(3), H.R. 4347, 89th Cong., 2d Sess. (1966).

FN5. The version of the proposed Copyright Act sent to the House floor contained several additional items listed as immune from preemption. One of these created great controversy: "misappropriation not equivalent to any of such exclusive rights." The Department of Justice objected to this exemption, stating that "[it] is almost certain to nullify preemp-

tion." Letter to Hon. Robert Kastenmeier, July 27, 1976, cited in 1 Nimmer on Copyright § 1.01[B], at 1-22. The bill was then amended on the House floor to delete all the specific examples of non-preempted causes of action. Rep. Seiberling described the reasons for that action as follows: Mr. Chairman, I offer an amendment [deleting all of the latter part of Section 301(b)(3) beginning with the word 'including,' followed by the examples of nonpreempted state created rights]. Mr. Chairman, my amendment is intended to save the 'Federal preemption' of State law section which is section 301 of the bill, from being inadvertently nullified because of the inclusion of certain examples in the exemptions from preemption. The amendment would simply strike the examples listed in section 301(b)(3). The amendment is strongly supported by the Justice Department, which believes that it would be a serious mistake to cite as an exemption from preemption the doctrine of 'misappropriation.' The doctrine was created by the Supreme Court in 1922 and it generally has been ignored by the Supreme Court and the lower courts ever since. Inclusion of a reference to the misappropriation doctrine in this bill, however, could easily be construed by the courts as authorizing the States to pass misappropriation laws. We should not approve such enabling legislation, because a misappropriation law could be so broad as to render the preemption section meaningless. 122 Cong.Rec. H10910 (daily ed. Sept. 22, 1976). We agree that these remarks suggest that Congress did not intend to remove the exemption from preemption for those causes of action initially listed in § 301(b)(3). Rep. Seiberling stated that his concern was over "certain examples," and then went on to note that his main concern was the

misappropriation example, which was added after the bill was initially drafted. We thus read his amendment striking the examples merely to remove the specific reference to misappropriation.

FN6. We note that Nimmer has argued that the *Wolff* court was wrong to find preemption even though the act claimed to breach the contract involved one of the exclusive copyright rights. "Reverting to *Wolff*, the court could have required the plaintiff to adopt an election of remedies to the extent that the copyright and contract causes of action were deemed inconsistent. See § 10.15[A] *infra*. Alternatively, it could have determined that any damage for contract breach was already subsumed in the copyright recovery. *See* § 14.02[B] & n. 53.1 *infra*. Both those devices might have accomplished the same goal without reaching an erroneous preemption holding." 1 Nimmer on Copyright § 1.01[B], at 1-16.1. According to Nimmer, then, if a license agreement contains a provision prohibiting the licensee from copying the program, the licensor could sue for breach of contract rather than for copyright infringement. Other courts have concluded, however, that breach of contract actions in which the alleged breach consists of the exercise of one of the exclusive copyright rights are preempted. See *Wolff*, 768 F.Supp. at 69; *Howard v. Sterchi*, 725 F.Supp. 1572, 1579 (N.D.Ga.1989); *Brignoli v. Balch, Hardy & Scheinman, Inc.*, 645 F.Supp. 1201, 1205 (S.D.N.Y.1986) (a breach of contract claim for "unauthorized use of copyrightable material falls squarely within § 301 and is thus preempted").

Because we decide that the specific contract right CA seeks to enforce is not equivalent to any of the copyright rights, we do not need to decide whether a

breach of contract claim based on a wrongful exercise of one of the exclusive copyright rights is preempted.

FN7. The license agreement between CA and National provides that CA can terminate the license agreement immediately upon National's breach of any term of the agreement. J.A. at 27. The license agreement between CA and National provides: If this Agreement should terminate for any reason, Licensee [National] shall certify in writing to CA that all copies or partial copies of the Licensed Program have been either returned to CA or otherwise destroyed and deleted from any computer libraries or storage devices and are no longer in use by Licensee. J.A. at 26.